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PROVISIONAL INTELLIGENCE REPORT

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RECENT AUSTRO-SOVIET ECONOMIC RELATIONS



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PROVISIONAL INTELLIGENCE REPORT

RECENT AUSTRO-SOVIET ECONOMIC RELATIONS

CIA/RR PR-97

(ORR Project 10.343A)

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This report, a revision of the ORR contribution to NIE 25-54, is confined to two of a number of economic topics taken up in the NIE. Limiting the discussion to these two topics -- the Soviet economic holdings in Austria and Austria's trade with the Soviet Bloc -- is in keeping with ORR's primary responsibilities in the economic intelligence field. The Soviet-controlled enterprises in Austria and Austrian trade with the Soviet Bloc are regarded as the principal aspects of the economic relations between the two areas, but this subject also includes some matters which are not taken up here -- for example, international use and control of the Danube River. This report is concerned only with developments since World War II, although some prewar-postwar comparisons are drawn.

- iii -

~~SECRET~~~~CONFIDENTIAL~~

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CONTENTS

	<u>Page</u>
Summary and Conclusions	1
I. Soviet Economic Holdings in Austria	6
A. Introduction	6
1. Allies' Attitude toward Austria	7
2. German Assets in Austria	7
3. Soviet Removals of "War Booty"	9
B. Soviet-Controlled Enterprises in Austria	10
1. Administration of Soviet Property in Austria (USIA)	10
a. Extent and Organization of Operations	10
b. Major Industrial Enterprises	14
(1) Automotive and Fine Mechanics	14
(2) Electrical Equipment	14
(3) Chemicals	15
(4) Metallurgy and Coal	16
(5) Machinery and Precision Instruments	17
c. Extralegal Nature of Operations	18
d. Value of the Properties to the USSR	20
2. Soviet Mineral Oil Administration (SMO)	23
a. Production and Distribution	24
b. Value of the Properties to the USSR	26
3. Danube Shipping Company (DDSG)	29
a. Historical Background	29
b. Current Situation	30
c. Value of the Properties to the USSR	31

- v -

~~SECRET~~ CONFIDENTIAL

~~S-E-C-R-E-T~~

	<u>Page</u>
C. Soviet Economic Policy in Austria	32
1. Strategic and Political Context	32
2. Economic Exploitation	33
3. Economic Obstruction	34
D. Applicability of the Long Draft Treaty	35
1. Pertinent Provisions	36
2. Probable Effects of the Adoption of Article 35	38
II. Trade of Austria with the Soviet Bloc	40
A. Introduction	40
B. Volume of Trade	42
C. Geographic Distribution of Trade	45
D. Commodity Composition of Trade	47
1. Imports	47
2. Exports	50
E. Relative Extent of Unrecorded Trade	50
F. Austrian Dependence on Trade with the Soviet Bloc	52

Appendixes

Appendix A. Tables 12-14	55
Appendix B. Methodology	61
Appendix C. Gaps in Intelligence	65
Appendix D. Sources and Evaluation of Sources	67

Tables

1. Total Production and USIA Production of Coal, Soviet Zone of Austria, 1937 and 1951-53	16
--	----

- vi -

~~S-E-C-R-E-T~~

CONFIDENTIAL

~~S-E-C-R-E-T~~

	<u>Page</u>
2. Gross Value of USIA Production and Exports, 1946-53	22
3. Production and Disposition of Crude Oil and Petroleum Products in Austria, 1938 and 1947-53	25
4. Exports of Austrian Crude Oil and Petroleum Products to the Soviet Bloc, 1952-53	26
5. Value of Austrian Crude Oil and Petroleum Products Sold to Austria and Exported to the Soviet Bloc, 1945-53	28
6. Indexes of the Volume of Total Recorded Trade of Austria, 1937 and 1948-53	43
7. Indexes of the Volume of the Recorded Trade of Austria with the Soviet Bloc, 1937 and 1948-53	45
8. Recorded Trade with the Soviet Bloc as a Proportion of the Total Recorded Trade of Austria, 1937 and 1948-53	46
9. Geographic Distribution of Austria's Recorded Trade with the Soviet Bloc, 1937 and 1948-53	48
10. Commodity Composition of Austria's Recorded Total Imports and Imports from the Soviet Bloc, 1953	49
11. Commodity Composition of Austria's Recorded Total Exports and Exports to the Soviet Bloc, 1953	51

- vii -

~~S-E-C-R-E-T~~

CONFIDENTIAL

CONFIDENTIAL

~~SECRET~~

Charts

Following Page

Figure 1. Austria: Disposition of the Output of Petroleum, 1947-53	26
Figure 2. Austria: Index of the Volume of Total Recorded Trade, 1937 and 1948-53	44
Figure 3. Austria: Geographic Distribution of Total Recorded Trade, 1937, 1948, and 1953	46

- viii -

~~SECRET~~

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RECENT AUSTRO-SOVIET ECONOMIC RELATIONS*

Summary and Conclusions

Since the end of World War II, a small but nevertheless significant segment of the Austrian economy in the Soviet zone of occupation has been under the control of the USSR. The extent and nature of Soviet control over these alleged German assets in Austria is the result of a sweeping, unilateral interpretation by the USSR of the provision in the Potsdam Agreement concerning the disposition of German assets in foreign countries.

The USSR is currently exercising the rights of ownership over about 240 industrial and commercial enterprises in Austria. These enterprises, together with a chain of nearly 250 retail stores developed since 1948, are administered by a Soviet governmental agency in Austria -- the Administration of Soviet Property in Austria (Upravleniye Sovetskogo Imushchestva v Avstrii -- USIA). In addition, the USSR controls the Austrian oil industry, which is located entirely within the Soviet zone of occupation, as well as the few remaining assets of the Danube Shipping Company in the Soviet zone.

The estimated 240 industrial and commercial enterprises under USIA produce a wide variety of goods and are the dominant producers in Austria of some of these. USIA has organized these enterprises into nine groups, the most important of which include the plants in the electrical equipment, automotive and fine mechanics, chemicals, metallurgy, and machinery categories. Other enterprises operate in the fields of light industry, construction and construction materials, food and other consumer goods, and agriculture and forestry. Apart from some 650 Soviet managers and officials, the USIA establishments employ some 50,000 Austrians, or about 6 percent of Austria's industrial workers.

The gross production of the USIA enterprises from 1946 through 1953 is valued at roughly \$1 billion, with an annual peak of about \$200 million in 1951. An estimated 20 percent of USIA production has been

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 December 1954.

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CONFIDENTIAL

S-E-C-R-E-T

exported to the Soviet Bloc, the remainder being sold within Austria (including the non-Soviet zones) or, to a minor extent, exported to non-Bloc countries. The net takings of the USSR from USIA operations from 1946 through 1953, making an allowance for limited investments in the enterprises, are estimated at about \$150 million.

USIA profits have been enhanced by limiting expenditures for the maintenance of plant facilities and by operating the enterprises in an extralegal manner. In general, the USSR claims extraterritorial rights in Austria for the enterprises under its control. Thus USIA buys, sells, imports, and exports goods without regard to Austrian legislation concerning taxes and customs duties and observes the foreign exchange regulations only when convenient.

Not only the industrial and commercial firms claimed as German assets after the war but also the chain of retail stores later organized in the Soviet zone are operated in this way. By avoiding import duties, defaulting on taxes, operating without trade licenses, and ignoring other Austrian economic regulations, these stores have caused a heavy loss in treasury revenues and have put Austrian retailers in a most difficult competitive position. Under the circumstances of military occupation and firm Soviet control over the USIA establishments, the Austrian government is unable to do much about this situation. Both persuasion and threats backed up by law have been employed by the government to bring about a boycott of USIA firms by Austrian businessmen and consumers, but these efforts have been largely unsuccessful.

The oil properties, which are the second major component of the Soviet economic holdings in Austria, are operated under the direction of another Soviet state agency, the Soviet Mineral Oil Administration (Sowjetische Mineraloelverwaltung -- SMV). Since the known oil resources of Austria are located wholly within the Soviet zone, SMV controls the industry completely.

SMV has carried forward rapidly the exploitation of Austrian oil resources begun by Germany during the war. The output of crude oil of over 3 million metric tons* in 1953 is double the 1950 figure and 50 times as large as the output in 1938. Because of inadequate refining capacity, about 40 percent of the total production of crude oil has been exported to the Soviet Bloc during the past 3 years. About two-thirds of the moderately increasing output of petroleum products has been sold to Austrian distributors at more or less competitive prices. Except for

* Throughout this report, tonnages are given in metric tons.

- 2 -

S-E-C-R-E-T

S-E-C-R-E-T

small quantities of petroleum products exported to non-Bloc countries, the remaining output of products goes to the Soviet Bloc.

In value terms, the Soviet Bloc has received during the period 1945-53 about 60 percent of the total output of crude oil and petroleum products of over \$430 million. Soviet net takings amount to possibly 30 percent of the gross value of production, or about \$130 million during the entire 9-year period, with an annual peak of \$27 million in 1953. These estimates imply that SMV received full payment for one-half of the shipments of crude oil and petroleum products to the Bloc. The USSR, Czechoslovakia, East Germany, Hungary, and Poland each took sizable shares of the crude oil exports in 1952 and 1953, but most of the refined products went to the USSR and Czechoslovakia in 1952 and to Czechoslovakia and Poland in 1953.

The present level of oil production in Austria can be continued for several years without large additional investments, but in view of the fact that the remaining potential oil resources amount to only 35 million tons, production can be expected to decline thereafter. The 1.8 million tons of crude oil and petroleum products shipped to the Soviet Bloc in 1953 are only 3 percent of the Bloc's total crude oil production. Nevertheless, this quantitatively small supply indirectly permits the sale of Rumanian petroleum to the West and thus is a useful source of foreign exchange.

The claim of the USSR to German assets in the Soviet zone of occupation also resulted in its acquisition of the properties of the Danube Shipping Company (Donau Dampfschiffahrts Gesellschaft -- DDSG). Since most of the seized vessels have been removed to the USSR or turned over to the joint Soviet-Satellite shipping companies as part of the Soviet capital contributions, the DDSG properties remaining in the Soviet zone of occupation are of little importance. The estimated value of these properties in 1953 was \$3.8 million, most of which was represented by the Korneuburg shipyard and port facilities in Vienna. DDSG shipping activity is reported to be virtually at a standstill.

The benefits which the USSR has received since the war through its control of the USIA, SMV, and DDSG enterprises do not comprise all of the Soviet takings from Austria. Soviet removals of "war booty" in 1945 and 1946 have been valued at roughly \$500 million. These

- 3 -

S-E-C-R-E-T

S-E-C-R-E-T

removals included dismantled industrial equipment, stocks of raw materials and finished goods, and large amounts of currency and securities. Total Soviet takings in "war booty" and profits from the operations of USIA and SMV may be estimated conservatively at some \$800 million.

Although exploitation is the paramount Soviet economic aim in Austria, a policy of obstructing the rehabilitation and development of the Austrian economy has also been apparent from time to time. Both of these economic aims are conditioned, and perhaps overshadowed, by strategic and political considerations arising from the presence of Soviet military forces in eastern Austria. These Soviet troops occupy an advantageous strategic position in central Europe. Moreover, the USSR has repeatedly used its hold on eastern Austria as a political bargaining point.

Negotiations between the Western powers and the USSR over the State Treaty for Austria, which would end the occupation, have continued off and on for about 8 years. The part of the Long Draft of the proposed treaty which is pertinent to this discussion is Article 35, on which the Big Four reached agreement in late 1949 after years of haggling. This article provides, in brief, that the USSR shall receive 60 percent of the oil production of Austria for a period of 30 years, some concessions in oil exploration areas, certain oil refineries, and the assets of the DDSG in eastern Austria. All other Soviet claims to German assets or "war booty" in Austria shall be relinquished in consideration of the payment of \$150 million by Austria to the USSR over a period of 6 years.

Adoption of Article 35 would be of economic benefit to Austria in spite of the properties which it grants to the USSR. Profits accruing to Austria through the return of all the USIA enterprises and a small part of the oil industry should do much to keep the \$150 million settlement from becoming a serious burden.

The other main aspect of Austro-Soviet relations is the trade between the two areas. Extralegal (and largely clandestine) shipments of manufactured goods and crude oil and petroleum products from the Soviet zone of Austria to the Soviet Bloc may have exceeded the volume of officially recorded exports from the whole of Austria to the Bloc by one-third in 1953. There also have been some unrecorded shipments of goods in the opposite direction.

- 4 -

S-E-C-R-E-T

S-E-C-R-E-T

Trade with the Soviet Bloc, as indicated by official statistics, is now much less important to Austria than it was before the war. Austria was able to increase its total recorded volume of exports by nearly one-half from 1937 to 1953, while limiting its imports in 1953 to 92 percent of the 1937 volume. In contrast, Austrian imports from the Bloc in 1953 were only one-quarter of the 1937 volume, and Austrian exports to the Bloc were less than one-half of the 1937 volume. Total trade turnover with the Bloc in 1953 was at the lowest point of the past 6 years. The effect of these changes has been to reduce the proportion of Austrian imports obtained from the Soviet Bloc from 39 percent of the total in 1937 to only 11 percent in 1953. The proportion of total Austrian exports taken by the Bloc has declined to a comparable extent -- from 35 percent of the total in 1937 to 11 percent in 1953.

Austria's leading trade partner within the Soviet Bloc in 1953 was Poland. Other European Satelllites accounted for almost all of the remaining trade of Austria with the Bloc. Bulgaria, East Germany, and Poland have increased their shares of Austria's trade with the Bloc since 1937, whereas the shares of Czechoslovakia, Hungary, and the USSR have declined.

Austrian imports from the Soviet Bloc consist mainly of foodstuffs and mineral fuels. In 1953 the Bloc provided one-third of the coal, coke, and lignite and one-sixth of the foodstuffs imported by Austria. Czechoslovakia and Poland were the sources of the coal, Bulgaria and Rumania supplied the cereals, and Czechoslovakia and Hungary provided most of the sugar.

Apart from the shipments of crude oil and petroleum products to the Bloc, the bulk of Austrian exports is made up of manufactured materials, notably iron and steel products; inedible crude materials, including large quantities of wood and lumber; and machinery and transport equipment. Only the first and last categories are significant in trade with the Soviet Bloc. In 1953 the Bloc took 11 percent of Austria's exports of manufactured materials, which made up one-half of total exports, and 29 percent of the exports of machinery and transport equipment. The exports of manufactured materials were fairly well distributed among the major European Satelllites, but Poland alone received about two-fifths of the machinery and transport equipment.

Austria is now less dependent on imports than before the war and is less dependent on the Soviet Bloc than formerly for imports which

- 5 -

S-E-C-R-E-T

S-E-C-R-E-T

are still essential. Industrial production has been increased 70 percent above the 1937 level without importing a much larger volume of goods than in the prewar year. Imports of raw materials have, in fact, declined by one-fifth during this period. Agricultural production has been restored to the prewar level, which is sufficient to meet about three-fourths of the country's food needs, and the development of domestic resources of hydroelectric power, petroleum, and brown coal has greatly reduced Austrian dependence on imported coal.

Coal and foodstuffs remain the most important commodities which are obtained from the Soviet Bloc, but only 20 percent of Austrian coal consumption and only about 4 percent of Austrian food consumption in 1953 were satisfied by imports from the Bloc. Moreover, the loss of the Bloc as an export market probably would not be critical in view of its mere 11-percent share of Austrian exports in 1953. It seems doubtful that imports and exports of this extent could be used effectively by the Bloc as an economic weapon against Austria. Pressures which the Bloc countries might try to exert by this means would be considerably restricted by the competitive world market for cereals and by the availability of coal from other areas such as the Ruhr and the Saar. Austrian trade with the Bloc may increase somewhat during the next several years, but it is unlikely that such trade will recover to anything like its prewar volume.

I. Soviet Economic Holdings in Austria.

A. Introduction.

Soviet ownership of several hundred industrial and commercial enterprises in Austria has its origin in the part of the Potsdam Agreement concerning reparations from Germany. The nature and extent of this economic burden on Austria reflect the special position which the Allies considered Austria to have occupied in the war and the sweeping, unilateral Soviet interpretation of the Potsdam provision regarding the disposition of German assets in foreign countries.

- 6 -

S-E-C-R-E-T

S-E-C-R-E-T

1. Allies' Attitude toward Austria.

Although Austria fought on the Axis side in the war, having been thoroughly absorbed by Germany after the Anschluss, the Big Three were disposed to look upon Austria as "the first free country to fall a victim to Hitlerite aggression" rather than as an enemy country. This view, which was expressed in the Moscow Declaration in November 1943, did not, however, keep the Soviet representatives at Potsdam from asking for reparations of \$250 million from Austria. This proposal was rejected by the US and the UK, and it was concluded (though not written into the Agreement) that reparations would not be levied on Austria. 1/*

This decision concerning reparations from Austria was partially nullified on the last day of the Potsdam Conference. Stalin requested that Soviet claims for reparations from Germany be satisfied not only by property in Germany and by German assets in Bulgaria, Finland, Hungary, and Rumania, as previously agreed, but also by German assets in eastern Austria (the Soviet zone of occupation). The US representatives accepted this proposal without too much thought, apparently believing that it did not grant the USSR much that it had not already seized as "war booty." After some hesitation, the UK negotiators likewise agreed to this addition to the German reparations clause. 2/

2. German Assets in Austria.

The distinction between Austrian reparations and control of German assets in Austria eventually became quite blurred as the USSR adopted the broadest possible interpretation of what constituted German assets. The general statement on this matter in the Potsdam Agreement made no provision for joint Allied determination of what represented German assets in Austria. Moreover, in a note to the Soviet government on 7 September 1945, the US proposed that although the Allied Control Council in Germany "is entitled to supervise and manage the distribution of German foreign assets, the Soviet Government will manage assets in Finland, Hungary, Bulgaria, Rumania and assets in eastern Austria without communicating with the British, French or American representatives in the Control Council." 3/ When the Western powers became aware of the scope of Soviet claims in eastern Austria, they protested any such broad interpretation of the Potsdam provision, but to little effect.

* References in arabic numerals are to sources listed in Appendix D.

- 7 -

S-E-C-R-E-T

S-E-C-R-E-T

Even a moderate view of the extent of German properties in eastern Austria would have resulted in Soviet ownership of a significant segment of the economy. Germany began a program of industrial development in Austria soon after the Anschluss in 1938. Production capacity in established industries was expanded, and Austria's first plant facilities in such lines as aircraft, nitrogen fertilizer, aluminum, and synthetic fibers were built and put into operation. 4/ State-owned enterprises such as the National Bank and the state forests automatically became German property after the annexation. Numerous businesses were acquired through the program of "Aryanization" of property belonging to Jews, and others were simply seized.

Apart from this, however, the penetration of German capital into the Austrian economy by more or less legal means was very extensive. By 1944, nearly 70 percent of the share capital of Austrian enterprises was German-owned, and in some lines of industry the percentage of German ownership approached 100 percent. One student of this problem states that "the economic exploitation of the former Austrian state continued until, in the last years of the war, every commercial, financial, or industrial enterprise of any importance in Austria had been brought under German control through the acquisition of the necessary shares or through outright seizure." 5/

During the first year of the occupation, the USSR seized numerous enterprises in its zone, claiming justification under the Potsdam Agreement. By the end of June 1946, nearly 300 industrial and commercial enterprises had come under its control. At this time the Soviet High Commissioner directed all Austrian authorities and private individuals to report known German properties in eastern Austria not yet taken over by the USSR. The Austrian coalition government protested that the Allies had not yet determined what constituted German assets in Austria and attempted to prevent Soviet control of these enterprises and most of the others already in Soviet hands by nationalizing them. The nationalization law, which was to become effective in September 1946, was suspended when the Soviet High Commissioner refused to allow it to become operative in the Soviet zone. 6/

The USSR has in general taken the position that, except for property seized without compensation, by force, or as a result of the "Aryanization" policy, all eastern Austrian enterprises

- 8 -

S-E-C-R-E-T

S-E-C-R-E-T

in German hands at the end of the war are German "external assets" within the meaning of the Potsdam Agreement. The Western powers, on the other hand, have taken the view that this is an inadequate test of whether an enterprise is a German asset, since some transfers from Austrian to German control were accomplished through fraud and duress. Furthermore, the properties claimed by the USSR were so extensive that it would wreck the Austrian economy to remove them, and even if they were not removed, it would seriously impair Austrian sovereignty to put them under extraterritorial control by the USSR. In this connection, the Austrian government has repeatedly called attention to the expressed aims of the wartime Allies to reestablish a "free and independent Austria" and to open the way for attainment of "political and economic security" by the Austrian people. Not only this decision, it is argued, "but also generally accepted legal principles demand the invalidation of all transfers of Austrian property to the Germans carried out under pressure." 7/

3. Soviet Removals of "War Booty."

Before considering the nature and extent of the enterprises in Austria which have been under Soviet control since the war, it should be noted that the USSR removed a large amount of property from eastern Austria during the first year following the war, particularly during the 5-month period from May through September 1945. This property was claimed first as "war booty" and, later, as German "external assets" granted to the USSR by the Potsdam provision concerning reparations from Germany. Stocks of food, clothing, and fuel were requisitioned and many industrial properties were dismantled and shipped to the USSR. Livestock, raw and finished materials, automobiles, railroad rolling stock, industrial and agricultural machinery and equipment, and entire factories were removed from the country. 8/ Large amounts of currency and securities were also confiscated. This activity continued until the spring of 1946, when the remaining enterprises claimed as German assets were placed under the Administration of Soviet Property in Eastern Austria (Upravleniye Sovetskogo Imushchestva Vostochnov v Avstrii, USIVA*) and production of goods was set under way.

According to recent estimates by the American Embassy in Vienna, 9/ the property confiscated and removed by the USSR immediately after the war had a total value of about \$500 million. Industrial and agricultural property accounts for slightly less than one-half of this

* The name was later shortened, by omitting "Eastern"(Vostochnov), to USIA.

S-E-C-R-E-T

S-E-C-R-E-T

amount, the remainder consisting of currency and securities. The Austrian government, in a memorandum circulated among members of the United Nations in July 1952, also estimated the loss at approximately \$500 million, although the entire amount is ascribed to "losses incurred through the dismantlement and removal of machinery, semi-finished products, raw materials and equipment." 10/ The US element of the Allied Commission for Austria estimated the losses in capital equipment alone at about \$400 million. 11/ Although any valuation of this type is necessarily very rough, \$500 million probably can be regarded as a conservative estimate of Austria's losses through Soviet takings in "war booty" and alleged German assets in the first year following the war. In any case, there can be little doubt that, by the early part of 1946, the USSR had confiscated and removed from its zone of occupation a considerably larger amount of property than the \$250 million worth of reparations it requested (and was refused) at Potsdam.

B. Soviet-Controlled Enterprises in Austria.

The present Soviet economic holdings in Austria consist of three major components, as follows: (1) the combine of industrial and commercial enterprises (including a chain of retail stores) under USIA; (2) the oilfields, refineries, and related facilities of SMV; and (3) the properties of DDSG. These components are discussed individually in the next three subsections.

1. Administration of Soviet Property in Austria (USIA).

a. Extent and Organization of Operations.

The properties in Austria which the USSR claimed as "war booty" or German assets and which had not been dismantled and shipped to the USSR were placed under USIA (then USIVA) in the spring of 1946. This change in policy concerning the disposal of properties seized by the Soviet authorities probably reflects their difficulties in successfully transplanting industrial facilities to the USSR. Much of this equipment is believed to have been wrecked during its dismantling and shipment to the East. 12/ Furthermore, following the crushing defeat of the Austrian Communist Party in the election of November 1945, the opportunity which continued control of enterprises in Austria offered for the employment of economic and political pressure possibly seemed far more important than formerly.

- 10 -

S-E-C-R-E-T

S-E-C-R-E-T

Reports of the number of enterprises which USIA took over upon its formation in 1946 vary somewhat. These differences can probably be explained by the differing dates used, since the organization of the combine was a gradual process; by confusion between the number of enterprises or firms and the number of physically separate plants; and by inclusion or exclusion of nonindustrial properties which were also taken over. Perhaps the best estimate is that USIA took over some 400 enterprises during the first several months of its existence. This figure probably includes between 250 and 280 industrial establishments, 13/ a number of commercial and financial enterprises, and on the order of 100 agricultural and forest properties. Some additional properties may have been acquired during the year or two after USIA was established, but others apparently have been closed down or consolidated in the intervening years. The most recent listing by the American Embassy in Vienna, 14/ as of April 1954, shows 298 firms under USIA.* Fifty-eight of these are believed to be inactive, leaving an estimated 240 enterprises currently in operation.**

As is shown below, the USIA enterprises produce a wide variety of producer and consumer goods and are the dominant producers in Austria of some of these. The USIA combine has at least 650 Soviet officials 15/; in December 1953 it employed an estimated 49,000 Austrian workers. 16/ The employment figure for December 1953, consisting largely of industrial workers, amounts to 6 percent of Austria's total industrial employment of some 800,000 at that time. 17/ Early estimates of the percentage of Austria's industrial capacity represented by USIA enterprises ranged up to 10 percent, with estimates as high as 30 percent for the Vienna metropolitan area alone. 18/ The estimate for Austria as a whole is probably too high under present conditions, since extensive economic aid from the US has permitted a great postwar expansion of industry outside the Soviet zone.

* Exclusive of two enterprises of the Soviet-controlled Danube Shipping Company (DDSG), whose subordination to USIA is believed to be largely nominal. See I, B, 3, below, for a discussion of DDSG.

** The Embassy reports that an additional 33 firms have been reported as closed by one source or another. It appears, however, that some of the firms are still in operation, in certain instances with a greatly reduced staff, or have resumed operations after closing temporarily. They are not yet regarded, therefore, as permanently closed.

- 11 -

S-E-C-R-E-T

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USIA is a geographical subdivision of GUSIMZ (Glavnyye Upravleniye Sovetskogo Imushchestva Zagranitsey, Main Administration of Soviet Property Abroad) and is directly responsible to Moscow. Among the primary components of USIA are 9 known Production Administrations, which are directly responsible to the Director-General of USIA. The Production Administrations are organized functionally and are more or less separate entities. With a few possible exceptions, the individual USIA enterprises are subordinate to one of the Production Administrations. 19/

The following tabulation shows the names of the Production Administrations which have been identified; the general field in which they are believed to exercise planning, production scheduling, purchasing, and sales functions; and the estimated number of active enterprises under each Administration: 20/

<u>Name of Production Administration</u>	<u>General Field of Operations</u>	<u>Estimated Number of Active Enterprises</u>
Avtodelo	Automotive and fine mechanics	20
Kabel	Electrical equipment	13
Kraska	Chemicals	29
Les	Agriculture and forest products	13
Marten	Metallurgy and coal	15
Podyomnik	Machinery and precision instruments	34
Textil (formerly Letex)	Light industry, including textiles and leather goods	38
Tsement	Construction and construction materials	38
Vkus	Food and other consumer goods	15
Unknown		29
Total		<u>244*</u>

This tabulation shows that the Soviet-controlled enterprises are engaged in a wide range of economic activities. The 10 or 12 most important enterprises are found in the electrical equipment, automotive and fine mechanics, chemicals, metallurgy, and machinery

* This figure is larger than that given above for active enterprises because 4 of the enterprises are subordinated to 2 Production Administrations.

- 12 -

S-E-C-R-E-T

S-E-C-R-E-T

categories. The light industry and food and consumer goods categories include some decidedly minor firms, engaged for example in the production of soda water, pastries and confectionery, alcoholic beverages, cosmetics, and Christmas tree ornaments.

The hundred-odd agricultural and forestry enterprises which were reported to be in Soviet hands in 1951 ^{21/} and which are presumed to have been taken over along with the industrial properties in 1945 and 1946 are not in evidence in the latest list from the American Embassy in Vienna. Most of the 13 enterprises in the agriculture and forest products category are engaged in the manufacture of wood and paper products. Some of the agricultural and forestry enterprises may have been consolidated under one firm, Landwirtschaft und Industrie A.G. Angern, which according to the Embassy, "manages extensive agricultural enterprises." ^{22/}

Of the estimated 93,400 hectares* of farm land which the USSR took over, 60,000 hectares have been distributed on a rental basis to some 12,000 farmers. Another 10,000 hectares of farmland in large estates are leased to Austrian tenants. In both cases, the USSR is paid annual cash rentals for the use of the land. The remaining 23,400 hectares of seized farmland are used as training grounds for the Soviet military forces in Austria. Soviet seizures of forest lands amount to about 63,000 hectares. Relatively little is known of the Soviet exploitation of these resources, apart from the fact that cutting has been heavy and wasteful, especially during the first postwar years. ^{23/}

USIA comprises not only industrial, commercial, and agricultural enterprises but also a chain of retail stores located throughout the Soviet zone, including the Soviet sector of Vienna. The chain started with a nucleus of three stores in Vienna in 1948 and developed rapidly during the next several years. ^{24/} A recent list of USIA enterprises includes 242 retail stores, a few of which apparently had been closed. ^{25/}

Originally, the stores were intended to serve only members of the Austrian Communist Party (KPOe). Since they offered scarce consumer goods at the time of their organization, the stores were supposed to make KPOe membership attractive, but this incentive became less and less effective as supplies of consumer goods improved.

* One hectare equals 2.471 acres.

- 13 -

S-E-C-R-E-T

S-E-C-R-E-T

The Soviet authorities subsequently abandoned this policy of limiting the clientele and decided to increase the number of stores in the chain. These stores have continued to serve a useful purpose for the USSR in earning schillings for the use of USIA industrial establishments and also in weakening the economic position of non-Soviet stores in Austria. 26/

b. Major Industrial Enterprises.

Production and employment data are not available for the great majority of the active USIA enterprises. Pertinent information which is available is presented in this subsection, following the functional classification used in organizing the Production Administrations of the USIA combine.

(1) Automotive and Fine Mechanics.

With one or two exceptions, production or employment data are not available for the 20 known firms in the automotive and fine mechanics category. The Oesterreichische Automobilfabrik A.G., with about 1,000 workers at the latest report, is believed to be one of the more important USIA establishments. This enterprise manufactures trucks, buses, electrical and other special vehicles, cogwheels, and gears.

(2) Electrical Equipment.

Some of the most valuable USIA plants are producers of electrical equipment. Many of the leading Austrian enterprises were originally founded as subsidiaries of foreign companies, on which they relied heavily for research and development. After many years of almost steady growth, the industry reached a peak level of employment of about 45,000 persons in 1944 27/ as a result of the wartime requirements for such goods. The industry received a major setback, however, in 1945, when most of the plants in the Vienna area (including plants located in what became the non-Soviet sectors of the city) were stripped of most of their equipment and processing facilities. The remaining plants in the Soviet zone, which were claimed as German assets and placed under USIA in 1946, represented an estimated 75 percent of the productive capacity of electrical equipment plants left in Austria at that time.

- 14 -

S-E-C-R-E-T

S-E-C-R-E-T

While still useful to the USSR, the USIA plants have in the past 8 years become a distinctly minor part of Austrian industry in this category. No significant amount of plant expansion has taken place in the USIA sector. Soviet efforts have generally been confined to some degree of restoration of previously dismantled establishments. On the other hand, expansion of non-USIA plants, facilitated by ECA funds, was quite rapid after the war. By 1952 the USIA plants accounted for only about 17 percent of the estimated total employment of 32,000 in this sector. Furthermore, the USIA figure in 1952, about 5,600 persons, is believed to have declined to about 4,700 in 1954. Two-fifths of the latter number are accounted for by just one of the 13 known plants, Siemens-Schuckert Werke A.G. Three other plants employ about 600 persons each.*

While these employment data give a more or less accurate general impression of the importance of USIA electrical plants, they conceal the fact that production of certain types of equipment is concentrated in USIA plants. The largest battery, wire and cable, and electric lamp manufacturing plants in Austria are under Soviet control. Three leading producers of motors, generators, and transformers are also USIA plants. USIA output may amount to as much as one-third to one-half of total Austrian output of such goods, depending on the general type of product.**

USIA plants occupy a minor place in the electrical equipment industry of the entire Soviet Bloc. The production of the USIA plants is very small in relation to Soviet Bloc production, and the part of USIA production which is shipped to the USSR and the Satellites is a similarly small portion of their imports of such goods.

(3) Chemicals.

Virtually no production or employment data are available for the 29 known chemical enterprises in the USIA combine. Donau Chemie A.G., one of the principal USIA plants, is the only sulfuric acid plant in the Soviet zone of occupation. Its capacity is reported to be 8,575 tons per year (on a 100 percent sulfuric acid basis). 30/ This may be compared with total Austrian production of sulfuric acid of 33,800 tons in 1937 and 60,150 tons in 1944

* Estimates based, for the most part, on data in source 28/.

** USIA production estimated on the basis of plant capacity. Estimates of non-USIA production are from source 29/.

- 15 -

S-E-C-R-E-T

S-E-C-R-E-T

(100 percent acid basis). The estimated output of Donau Chemie is only a fraction of 1 percent of that in the USSR. 31/ About one-fourth of the output in 1953 was delivered to the refineries of SMV.

(4) Metallurgy and Coal.

Within the Soviet zone, both bituminous coal and brown coal are mined, production of the former averaging about 40 percent of the latter in recent years. USIA controls Austria's only significant bituminous coal mine, which usually accounts for over 90 percent of the country's small output of bituminous coal (see Table 1). Production of brown coal in Austria, totaling 5.6 million tons in 1953, is of considerable economic importance because of the meager resources of bituminous coal. The USSR controls only 1 brown coal mine, which provides about 6 percent of the total production in the Soviet zone and a fraction of 1 percent of total Austrian brown coal production. USIA production of bituminous coal and brown coal is negligible compared with Soviet production. 32/

Table 1

Total Production and USIA Production of Coal
Soviet Zone of Austria 33/
1937 and 1951-53

	Thousand Metric Tons			
	<u>1937</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
<u>Bituminous Coal</u>				
Soviet Zone	230	190	185	160
USIA Enterprises	218	172	165	155
USIA as Percent of Soviet Zone Total	95	91	89	97
<u>Brown Coal</u>				
Soviet Zone	335	523	450	401
USIA Enterprises	69	28	25	23
USIA as Percent of Soviet Zone Total	21	5	6	6

- 16 -

S-E-C-R-E-T

S-E-C-R-E-T

Iron and steel production by USIA plants in eastern Austria is relatively unimportant, amounting to less than 4 percent of the production in the non-Soviet zones. The USSR controls 2 rolling mills and 2 steel foundries, which employ less than 3,000 workers. ^{34/} Their estimated output in 1953 was 30,000 tons of rolled steel and 13,000 tons of steel castings, respectively. According to the best evidence, there was no production of metallurgical coke, pig iron, or steel ingots in eastern Austria in 1953, and steel scrap was in short supply. ^{35/} Having to rely on foreign sources for semifinished steel and steel scrap for its rolling mills and steel foundries, USIA has developed a tacit arrangement whereby about 60 percent of its output is exchanged with the West for the needed materials. ^{36/} The remainder is delivered to fabricating plants in eastern Austria or exported to the USSR or the neighboring Satellites.

Austria somewhat resembles Germany in that the principal deposits of raw materials for iron and steel manufactures lie west of the Soviet zone of occupation. There is no indication, however, that the USSR plans to establish a substantial, integrated iron and steel industry along the lines of that developed in East Germany.

The Soviet zone of Austria has no nonferrous metal or mineral resources of significance. Sporadic production of several such materials has occurred in the past, but antimony is the only nonferrous metal with a commercial production record. One mine, under Soviet control, is responsible for the entire output, which amounted to about 400 tons in 1951, 300 tons in 1952, and 100 tons in 1953.* Production is believed to be sufficient for Austrian needs, with a surplus which is normally shipped to Czechoslovakia.

(5) Machinery and Precision Instruments.

Little pertinent information is available for the 34 enterprises reported to be active in the machinery and precision instruments field. At least 6 of these, however, must be numbered among the most valuable establishments in the USIA group. The manufactures of these firms include such essential items as railroad rolling stock, excavators, diesel engines, fabricated structural steel, power plant equipment, oil-drilling equipment, cranes, engine-fueling systems, agricultural equipment, and

* Estimates based on data from the US Bureau of Mines.

S-E-C-R-E-T

S-E-C-R-E-T

optical and precision instruments. A large proportion of the output of some of these plants has been going to the USSR, but these deliveries are very small relative to total Soviet supply.

c. Extralegal Nature of Operations.*

USIA generally functions outside Austrian law, on a basis of extraterritoriality. Such a situation was not, of course, contemplated by the Western powers in the negotiations concerning Austria at the end of World War II and is in general contrary to Article 35, paragraph 7 (a), of the Long Draft Treaty. But pending adoption and enforcement of the treaty, very little apparently can be done about it.

From the first, USIA has bought, sold, imported, and exported goods without regard to Austrian legislation and economic control measures. These enterprises were also active in the extensive postwar black market in Austria. Foreign currencies received in payment for exports of USIA goods have not been turned into the Austrian National Bank (as required by law) unless Austrian schillings were needed. In order to increase output, the USIA plants have at times paid higher wages and supplied larger rations of food than the regulations of the four-power Allied Council and the Austrian government permitted. USIA enterprises usually pay the wage taxes and the ground tax levied by the local governments but not the Federal Government's taxes on incomes, profits, and property. 37/ USIA alone has determined what proportion of the goods produced by its enterprises should be made available to the Austrian home market, and the value to Austria of the deliveries which have been made has been reduced by their uncertainty and irregularity. 38/

Even the pretext of taking over German assets in pursuance of the Potsdam Agreement could not be used to justify the Soviet establishment under USIA of a chain of over 200 retail stores located throughout the Soviet zone of occupation. These stores sell goods produced by USIA industrial plants and also goods imported illegally. Most of the latter are smuggled in from eastern Europe under the guise of Soviet military shipments. By avoiding import duties, defaulting on taxes, operating without trade licenses,

* Although this discussion has reference only to the operations of USIA, the other Soviet-controlled enterprises in Austria raise the same general problem.

- 18 -

S-E-C-R-E-T

S-E-C-R-E-T

encroaching on the government's sales monopoly in cigarettes and liquor, and ignoring Austrian regulations concerning maximum business hours, these stores have caused a heavy loss in treasury revenues and have created severe, unfair competition for non-Soviet retail firms. Fullest propaganda use has also been made of the establishment of these stores by claims that the low prices are made possible by more efficient Soviet methods and the absence of capitalist profits. 39/

Although the USSR has at times eased up on some of its most repressive and resented activities, the present situation of the USIA enterprises is very much as just described. In December 1953, for example, the arrest by Austrian police of an Austrian employee of a USIA administration was prevented by Soviet officials, who claimed extraterritorial rights for USIA enterprises. 40/ More recently, in another case, a representative of the Soviet High Commissioner in the Province of Burgenland claimed that Austrian police may arrest Austrians in USIA enterprises only with the approval of the General-Director of the firm. 41/

Austrian municipalities have even had great difficulty collecting from USIA enterprises for utility services provided to them. According to Austrian press accounts, for instance, USIA owed the Vienna Municipality more than 13 million schillings* for power and gas deliveries as of October 1953. This bill was reduced by partial payment to 8.5 million schillings by the end of November, but USIA was still in arrears an additional 20 million schillings in taxes and other fees due to the city of Vienna. Austrian authorities threatened to cut off the power and gas if a satisfactory settlement was not arranged. But this threat was not carried out, because of the possibility of Soviet retaliation. One means of retaliation was fairly obvious, since SMV provided an estimated 55 percent of the gas used in Vienna in 1953. 42/

Nonpayment of duties and taxes by USIA firms is particularly irritating to the Austrians. The sum of 500 million schillings which the Austrian government claims USIA owes it in taxes and duties has been an issue for some time. Many attacks were made on USIA during the debate on the Austrian national budget in the latter part of 1953. Numerous examples of revenue losses attributable to USIA and of disregard of Austrian economic legislation by USIA were cited.

* One US dollar equals 26 Austrian schillings at the official rate of exchange.

- 19 -

S-E-C-R-E-T

S-E-C-R-E-T

From time to time, the Austrian government has attempted to crack down on Austrian customers of USIA enterprises. Appeals to boycott the Soviet retail stores have been made by the non-Communist press and have probably had some effect, but the stores have nevertheless acquired a large clientele. 43/ There were frequent reports last year of fines against Austrian merchants who engaged in illegal trade with USIA enterprises. 44/ This activity has generally taken the form of buying commodities imported illegally into Austria. But these efforts have not been very successful. The problem was recently discussed by officials of the Trade, Finance, Interior, and Justice Ministries and representatives of leading Austrian business and labor organizations. As a result, it appears that another effort is to be made. The measures under consideration include possible dismissal of government employees if they or members of their families patronize USIA stores, and cancellation of trade licenses and possibly other penalties for manufacturers and wholesalers who sell to USIA firms and for wholesalers and retailers who buy from such firms in an effort to evade taxes and duties. An intensive campaign to persuade the public not to patronize USIA stores is also contemplated. Beyond this, there is Section 132 of the Austrian Trade Ordinances, which provides that any Austrian citizen who buys goods at a store he knows does not have a trade license is subject to prosecution. The Ministry of Trade will publish an official list of USIA stores, which do not have trade licenses. 45/

The American Embassy in Vienna is doubtful about the effectiveness of these measures. At most, they promise only a partial solution of the problem, and even this will not be realized unless the program is carried out with greater vigor and firmness than in the past. The possibility of Soviet countermeasures must also be taken into account. 46/

d. Value of the Properties to the USSR.

Appraisals by Western representatives of the value to the USSR of USIA enterprises (as well as of its other holdings) show some tendency to shift with the political winds. Thus, the value of the enterprises was probably exaggerated in 1945 and 1946, when the Western powers were protesting the broad Soviet interpretation of what represented German assets in Austria. A more modest valuation was placed on them in October 1947, when the French delegate to the treaty discussions in Vienna suggested that the troublesome issue of defining German assets be avoided entirely. Under his proposal,

- 20 -

S-E-C-R-E-T

S-E-C-R-E-T

the treaty would grant specific assets to the USSR, and Austria would pay \$100 million for all other properties claimed by the Russians under the Potsdam Agreement. At the meetings in the spring of 1948, the USSR demanded larger oil concessions than proposed by the French and a settlement of \$200 million rather than \$100 million for the alleged German properties to be returned to Austria. A compromise on the latter point at \$150 million was reached shortly thereafter.

More recently, the Austrian Foreign Office has suggested \$35 million as an equitable payment for the properties which would be returned under the Long Draft Treaty.* The \$150-million valuation had been reluctantly accepted by the Western powers on the assumption that the treaty would be concluded promptly. It is argued by some Austrians that, after several years of under-maintenance, depreciation, and obsolescence, the plants are worth much less now than they were. Furthermore, they say, the amount of the settlement should be reduced by the amount of Soviet takings from USIA plants during this period of deadlock over the treaty. ^{47/} The Russians have shown little inclination so far as to take such matters into consideration.

Neither the gross value of USIA production and exports nor the extent of net Soviet takings can be estimated accurately with the data available. Information on USIA exports is somewhat better than that available for production. Table 2** shows USIA exports as estimated for the period 1946-53 by the American Embassy in Vienna and the preceding Legation. A study in 1949 by the Austrian Federal Ministry for Property Control and Economic Planning and the Austrian Federal Chamber of Commerce indicated that, at that time, USIA exports represented approximately 20 percent of total production. ^{48/} This relationship between USIA exports and production has been projected through the entire period to obtain the production estimates in Table 2.

The Embassy suggests 15 to 20 percent of the gross value of USIA production as a conservative estimate of the extent

* The properties involved do not include most of the oil resources and refineries or any of the Danube shipping assets now under Soviet control. See pp. 22 and 23, below.

** Table 2 follows on p. 22.

S-E-C-R-E-T

S-E-C-R-E-T

of net Soviet takings.* A 15- to 20-percent profit is higher than the average for Austrian enterprises, but the Embassy believes it is reasonable in view of the customs duties and taxes which USIA firms evade and in view of their failure to charge off adequate depreciation expenses and make sufficient expenditures for the proper maintenance of plant facilities. ^{49/} Net takings of 15 percent of USIA's gross production, to use the more conservative figure, would amount to some \$150 million during the period 1946-53. Net takings in 1953 alone would be \$21 million and those in the peak year of 1951 about \$30 million.

Table 2

Gross Value of USIA Production and Exports ^{50/}
1946-53

	Million \$	
	<u>Estimated Gross Value of Exports</u>	<u>Estimated Gross Value of Production</u>
1946	10	50
1947	15	75
1948	26	130
1949	30	150
1950	29	145
1951	40	200
1952	30	150
1953	28	140
Total	<u>208</u>	<u>1,040</u>

To estimate net Soviet takings from the USIA enterprises at 15 percent of the gross value of their production is, of course, the same as to say that approximately three-fourths of the indicated exports was available to the USSR without cost. Net

* As used here, the term "net takings" differs from the familiar concept of "net profits" mainly in that estimates of "net takings" make an allowance for the limited investments which the USSR has made in USIA enterprises.

- 22 -

S-E-C-R-E-T

S-E-C-R-E-T

takings from the current production of these enterprises cannot approach the total value of such production but must correspond to the "profits" which the enterprises are able to earn, less any expenditures on investment. Thus the situation is quite unlike that in East Germany during the period of reparations deliveries to the USSR. Soviet-controlled establishments in eastern Austria have the usual costs for materials, labor, and overhead. A substantial portion of their output must be sold in order to meet these expenses. This means that the USSR either must pay for some of the goods produced by the USIA plants or must make some sales to the non-Soviet zones of Austria or must export part of the output to the Satellites or to non-Bloc countries.

Reports have been received lately concerning the closing of certain USIA plants and the financial difficulties, layoffs, and poor operating conditions of others. A number of USIA establishments undoubtedly have been closed. During 1953, USIA employment declined by an estimated 2,200 workers, according to US officials in Vienna, but they point out that this is not a large proportion of total USIA employment. Some transfer or dismissal of workers as a result of plant consolidations may reflect further efforts to rationalize operations and thus reduce costs. ^{51/} Recent Austrian newspaper reports have made much of the deterioration of USIA plants, the obsolescence of the machinery and equipment, the inefficient methods and incompetent personnel, and the resulting substandard goods which are produced.

Some accounts indicate that USIA as a whole is operating at a loss, the deficit being made up by the profits of SMV. ^{52/} If the above-mentioned estimates of USIA production have any validity, these reports of USIA difficulties must be heavily discounted.

2. Soviet Mineral Oil Administration (SMV).

In September 1945 the USSR seized all petroleum producing, refining, and distributing properties in Austria that were under German ownership. Since all petroleum producing and refining facilities were located in the Soviet zone of occupation, the USSR took over operational control of all other petroleum properties as well.* SMV, which directs

* US, British, and Canadian ownership rights in certain oilfields and refineries are recognized in a limited way by the Soviet authorities. These properties have been left under non-Soviet management but are subjected to a large degree of control by SMV, which is in a position to determine their profits from oil production and refining operations. ^{53/}

- 23 -

S-E-C-R-E-T

S-E-C-R-E-T

these properties, is nominally subordinate to USIA but operates in a relatively autonomous manner. ^{54/} The properties controlled by SMV consist of 8 oil fields, ^{55/} 7 refineries, ^{56/} and associated facilities for distribution and other purposes. Since the war, SMV has completely dominated the Austrian oil industry.

a. Production and Distribution.

The Germans, during the war, had already done much to develop the petroleum resources in eastern Austria. Early in 1946, SMV began an intensive drilling program, which resulted in rapidly increasing crude oil production. The crude oil output of 3.1 million tons in 1953 is double the 1950 figure, more than three times the 1948 figure, and 50 times as large as the output in 1938 (see Table 3*). Among the oil-producing countries in Europe, Austria ranks after the USSR and Rumania.

Refining capacity also was increased by SMV, but at a much slower rate than production of crude oil. In 1950, crude oil production and refining capacity were nearly in balance; by 1953, production exceeded the annual refining capacity of 1,770,000 tons ^{57/} by about 75 percent. As a result, significant quantities of crude oil have been exported to the Soviet Bloc since 1950. These exports have averaged over 40 percent of the total production of crude oil during the past 3 years (see Table 3).

The output of petroleum products has increased only moderately since 1950 because of the limited refining capacity. About two-thirds of the output of products in recent years has been made available for distribution in the Soviet and other zones of Austria and for minor exports to the West (see Table 3 and Figure 1**). SMV sells these products to Austrian distributors at generally competitive prices. ^{58/}

The remaining output of petroleum products (apart from small quantities used by the Soviet military forces in Austria) is shipped to the USSR and several of the Satellites. This is in addition to the previously mentioned shipments of crude oil. The USSR, Czechoslovakia, East Germany, Hungary, and Poland each take a sizable share of the shipments of crude oil. For the period 1947 through 1953, it is estimated that the USSR and the Satellites

* Table 3 follows on p. 25.

** Following p. 26.

S-E-C-R-E-T

S-E-C-R-E-T

Table 3

Production and Disposition of Crude Oil and Petroleum Products in Austria
1938 and 1947-53

	1938	1947	1948	1949	1950	1951	1952	1953
Crude Oil Production ^{52/}	57	940	960	1,250	1,500	2,300	2,800	3,073
Crude Oil Exports to the Soviet Bloc	Negligible	Negligible	Negligible	Negligible	80	950	1,145	1,423
Crude Oil Available for Refining in Austria	57	940	960	1,250	1,420	1,350	1,655	1,650
Output of Refined Products ^{a/}	50	818	835	1,088	1,235	1,175	1,440	1,436
Deliveries of Products to Austria (including the Soviet Zone) and Minor Exports to the West ^{64/}		350	331	331	509	823	927	1,016
Availability of Products to the Soviet Bloc		468	504	757	726	352	513	420
Estimated Consumption of Products by the Soviet Military Forces		40 ^{b/}	40 ^{b/}	40 ^{b/}	40 ^{b/}	40 ^{b/}	53 ^{c/}	37 ^{c/}
Petroleum Product Exports to the Soviet Bloc		428 ^{d/}	464 ^{d/}	717 ^{d/}	686 ^{d/}	312	460 ^{d/}	383 ^{d/}
Total Petroleum Exports to the Soviet Bloc		428	464	717	766	1,262	1,605	1,806
(Crude Oil and Products)								

a. Equals the amount of crude oil available for refining multiplied by a factor of 0.87 to account for losses and refinery fuel use.

b. Estimate on the basis of calculated amounts for 1952 and 1953.

c. Difference between amount available to the USSR and rerouted exports to the Bloc.

d. Calculated amount available to the Bloc less estimated consumption by the Soviet military forces in Austria.

- 25 -

S-E-C-R-E-T

S-E-C-R-E-T

received over 7 million tons of crude oil and petroleum products, excluding consumption by the Soviet occupation forces in Austria (see Table 3 and Figure 1). The bulk of the petroleum products went to the USSR and Czechoslovakia in 1952 and to Czechoslovakia and Poland in 1953 (see Table 4).

Table 4

Exports of Austrian Crude Oil and Petroleum Products
to the Soviet Bloc 67/
1952-53

	<u>Crude Oil</u>		<u>Petroleum Products</u>	
	<u>1952</u>	<u>1953</u>	<u>1952</u>	<u>1953</u>
Czechoslovakia	220	230	175	190
East Germany	245	440	0	0
Hungary	350	320	35	26
Poland	130	233	50	145
USSR	200	200	200	22
Total	<u>1,145</u>	<u>1,423</u>	<u>460</u>	<u>383</u>

b. Value of the Properties to the USSR.

The petroleum properties of SMV undoubtedly have been profitable for the USSR, although not so profitable as the industrial enterprises of USIA. Because of the location of the petroleum industry, the USSR was able to gain complete control of it, including some enterprises which were not German owned. This control has permitted the USSR, after repairing some war damage and drilling additional wells, to exploit the fields thoroughly at relatively small cost. All profits earned by SMV accrue to the USSR. Austria is able to buy some of the products processed from its crude oil but receives no share in the profits of the industry and (what is essentially the same thing) receives no compensation for at least part of the crude oil and petroleum products which are shipped to the Soviet Bloc.

- 26 -

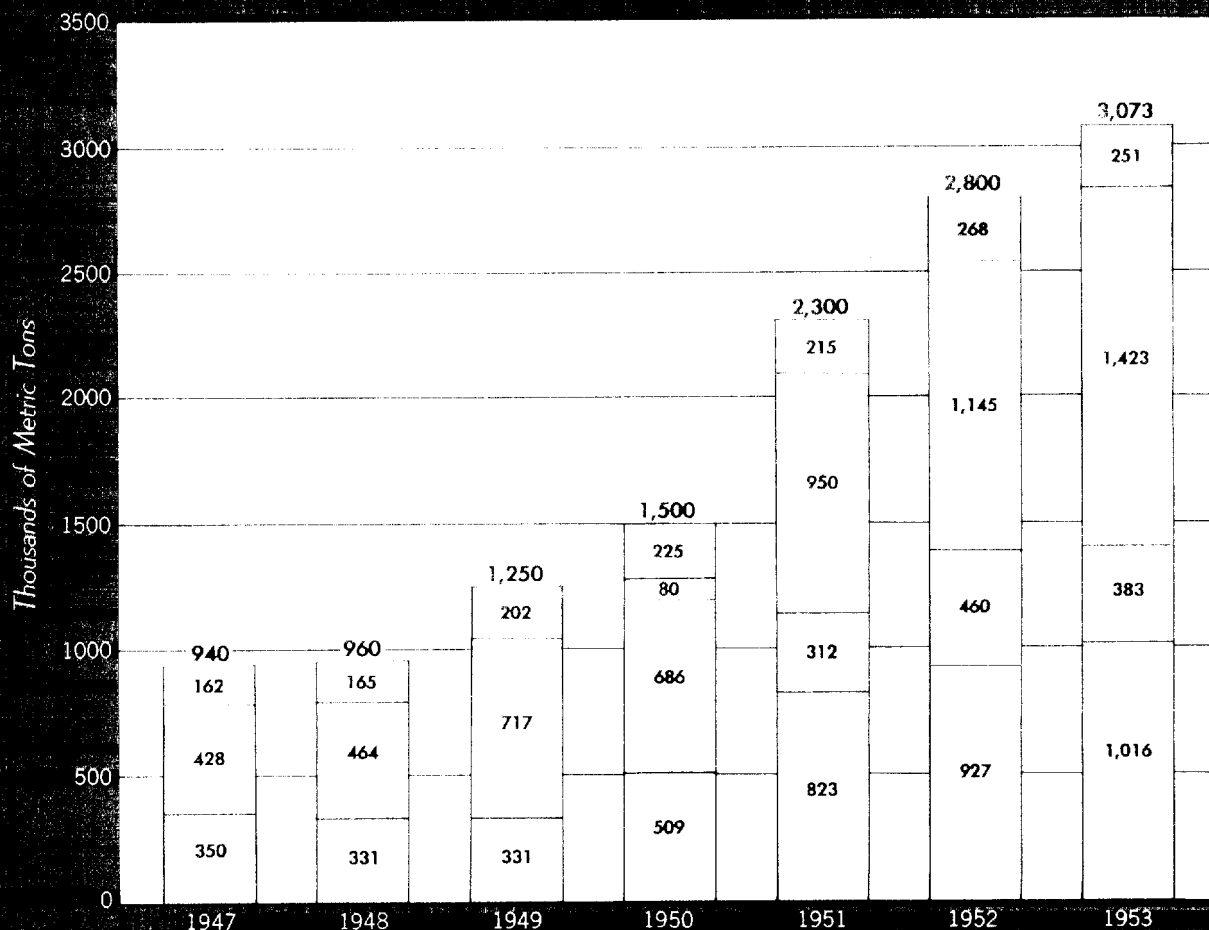
S-E-C-R-E-T

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Figure 1

AUSTRIA

Disposition of the Output of Petroleum, 1947-53



Deliveries of Petroleum Products to Austria, including the Soviet Zone*

Exports of Crude Oil to the Soviet Bloc

Exports of Petroleum Products to the Soviet Bloc

Other**

* Including also minor exports to the West

** Plant losses, refinery fuel use, and consumption by the Soviet military forces in Austria

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S-E-C-R-E-T

Estimates of the value of the petroleum products sold to Austria and of the crude oil and petroleum products exported to the Soviet Bloc during the period 1945-53 are presented in Table 5.* The products sold to Austria had an estimated value of \$171 million; the crude oil and petroleum products exported to the Soviet Bloc, an estimated value of \$262 million. Both sales to Austria and exports to the Bloc have been at record levels during the past 3 years.

According to the American Embassy in Vienna, 25 to 30 percent of the combined value of the sales to Austria and the exports to the Soviet Bloc may be regarded as a conservative estimate of the value of net Soviet takings (the net profits of SMV less investment expenditures). 68/ Although the estimate of the combined value of such sales and exports given in Table 5 is nearly half again as large as the Embassy's figure,** 69/ an estimate of net takings of 30 percent of the total value still seems reasonable. Such an estimate, applied to the combined value of domestic sales and exports to the Bloc of \$433 million for the period 1945-53, would amount to about \$130 million. Net Soviet takings in 1953 alone would be about \$27 million.

It should be noted that the estimated value of exports of Austrian crude oil and petroleum products to the Soviet Bloc of \$262 million during the period 1945-53 (see Table 5) is approximately twice the value of net Soviet takings as calculated above. This implies that about one-half of the shipments to the Bloc were fully paid for -- that is to say, payment was made to SMV. Such payments to SMV were necessary, if the data in Table 5 and the assumption concerning the size of net takings are even approximately correct, because SMV required the funds to meet its operating and investment expenditures. The receipts from sales to Austria during the 9-year period of \$171 million were by no means sufficient to pay the expenses of SMV, which are implicitly assumed to be 70 percent of \$433 million, or \$303 million. Such payments for exports to the Bloc presumably would be made by the Satellites rather than by the USSR. As Table 4 shows, by far the larger portion of such shipments went to the Satellites in 1953, and the USSR was of course in a position to exact payment for them.

In view of the remaining potential oil resources in Austria, approximately 35 million tons, 70/ continued control of the

* Table 5 follows on p. 28.

** See Appendix B, Methodology, for an explanation of the difference.

S-E-C-R-E-T

S-E-C-R-T

Table 5

Value of Austrian Crude Oil and Petroleum Products Sold to Austria and Exported to the Soviet Bloc
1945-53

	Petroleum Products Sold to Austria Quantity c/ (Thousand Metric Tons)	a/ Value d/ (Million \$)	Estimated Exports to the Soviet Bloc b/ Quantity c/ (Thousand Metric Tons)	d/ Value d/ (Million \$)	Combined Value of Crude Oil and Petroleum Products Sold to Austria and Exported to the Soviet Bloc (Million \$)
1945	150	7	276	13	20
1946	342	16	456	22	38
1947	350	17	428	21	33
1948	331	16	464	22	38
1949	331	11	717	24	35
1950	509	13	766	25	38
1951	323	22	1,262	36	58
1952	927	32	1,605	47	79
1953	1,016	37	1,806	52	89
Total	4,779	171	7,780	262	433

a. Including minor quantities exported to the West.

b. Excluding estimated consumption of petroleum products by the Soviet military forces in Austria.

c. Quantities for 1945 and 1946 are from the American Embassy in Vienna. 71/ Quantities for 1947-53 are from Table 3, p. 25, above.

d. Prices used in valuing the petroleum products sold to Austria are from the American Embassy in Vienna. 72/ Valuation of the exports of crude oil and petroleum products to the Soviet Bloc differs somewhat from the Embassy's valuation, as explained in Appendix B, Methodology.

- 28 -

S-E-C-R-T

S-E-C-R-E-T

Austrian oil industry promises important additional benefits to the USSR. Soviet exploratory activity in Austria virtually ceased in 1953, but crude oil production can be continued at relatively high levels for the next 3 to 5 years simply by maintaining the present facilities, without large additional investment costs. Under these conditions, however, the output of crude oil can be expected to decrease from year to year thereafter.

In physical terms, the SMV properties do not represent a very imposing addition to the Soviet Bloc petroleum industry, most of which is located in the USSR and Rumania. The estimated 1.8 million tons of crude oil and petroleum products shipped to the Bloc in 1953 is only 3 percent of the Bloc's 1953 crude oil production of 60 million tons. ^{73/} SMV exports indirectly make a noteworthy contribution to the Bloc's export program, however. The availability of Austrian petroleum to the Bloc has permitted the sale of Rumanian petroleum to the West and thus has had the effect of providing a useful additional source of foreign exchange in non-Bloc currencies.

3. Danube Shipping Company* (DDSG).

The third element among the Soviet economic holdings in Austria is DDSG. This enterprise occupied a prominent position in Danube River shipping before the war, but, as the following brief survey shows, the DDSG properties currently under Soviet control in eastern Austria are of relatively little importance.

a. Historical Background.

Danube shipping from 1939 to 1944 was completely dominated by Germany. In addition to obtaining a controlling interest in the Slovak, Croatian, and Bulgarian shipping companies, Germany's Goering Combine took over the German Bavarian Lloyd Company and the two major Austrian companies, DDSG and its affiliate, the Continental Steamship Company. Early in 1946, the USSR expropriated all of the vessels and other property of DDSG in eastern Austria and eastern Europe as German external assets, notwithstanding the coercive nature of their transfer to Germany.

Most of the expropriated DDSG vessels, along with vessels seized during and after the war from other countries along the Danube,

* Also known as the First Danube Steamship Company.

S-E-C-R-E-T

S-E-C-R-E-T

were placed under the control of the Soviet Danube Shipping Company (SDGP). Later, in order to forestall demands for the return of these vessels to their former owners, SDGP removed them to the USSR or used them as part of the Soviet capital contributions to the newly formed Soviet-Satellite shipping companies, in which the USSR held the controlling shares. The remaining vessels and other property of DDSG were placed under a Soviet-administered enterprise which retained the name of the old Danube Shipping Company. 74/

The assets of the prewar DDSG in the US zone of occupation, which has the Danube and a tributary as the larger part of its eastern boundary, were taken over by the US at the end of the war. The Austrian government was then appointed as a trustee to operate the properties. During the summer of 1946, the USSR made an abortive attempt to legalize its seizures in the Soviet zone by inducing the west Austrian DDSG to surrender 51 percent of its stock. In exchange, the USSR offered to return a number of vessels and restore the Vienna port facilities of DDSG. At the end of the negotiations, the Soviet authorities abruptly shut off the Danube at Linz, on the border of the US and the Soviet zones.

Western vessels travelled infrequently to Vienna thereafter and then only with Soviet guarantees of safe conduct to guard against confiscation. Soviet and Satellite craft proceeding upstream took similar precautions, fearing retaliation by the US. In a surprising and not yet adequately explained move in June 1952, the USSR relaxed its control over the Danube within the Soviet Zone and has since permitted DDSG vessels from western Austria to use the river without interference. 75/

The number of DDSG vessels in the Soviet zone immediately following the war was comparatively large, amounting to about one-half of the prewar DDSG fleet -- then the most extensive one on the Danube. As late as 1949, the Soviet DDSG had 14 tugs, 2 passenger vessels, 3 self-propelled barges, and approximately 270 POL and dry-cargo barges with an estimated capacity of 140,000 tons. 76/ As already stated, this fleet was rapidly depleted as the USSR removed vessels to its own inland waterways or transferred their ownership to joint Soviet-Satellite shipping companies. Less than 20 percent of the expropriated fleet remained under the control of the Soviet DDSG by 1950. 77/

b. Current Situation.

By 1953 the operations of the company were reported to be virtually at a standstill. The Director-General of the DDSG in

- 30 -

S-E-C-R-E-T

S-E-C-R-E-T

western Austria claimed in 1953 that only two DDSG tankers were still plying the Danube, carrying crude oil from Vienna to the Soviet-controlled refinery at Moosbierbaum. Soviet DDSG traffic thus appears to be negligible. Eastern Austria must rely on SDGP and Satellite fleets to meet its river transport requirements, which consist primarily of POL traffic to and from Vienna. 78/

c. Value of the Properties to the USSR.

The earnings of the Soviet DDSG are not known, but they cannot have been very large in view of the transfer of most of its vessels to the USSR and the Satellites. Calculation of earnings would, in any case, constitute double-counting of Soviet takings from Austria, since the value of DDSG properties presumably is included in the estimate above of Soviet removals following the war of \$500 million in tangible property, currency, and securities. DDSG assets seized by the USSR in eastern Europe at the end of the war had a value at that time of approximately \$33 million. A coal mine, a shipyard, and other property in Hungary made up nearly three-fifths of this sum. Most of the remainder was represented by the value of vessels. 79/

As of 1953, the value of DDSG assets remaining in the Soviet Zone of Austria was represented at only \$3.8 million. Nearly two-thirds of this amount is represented by the Korneuburg shipyard, and the remainder consisted largely of land and buildings, including port facilities in Vienna. Vessels and floating equipment were valued at about \$200,000. 80/

Despite the fact that, for all practical purposes, the Soviet DDSG no longer operates as a commercial shipper on the Danube, some advantages accrue to the USSR through its control of the enterprise. The Vienna port facilities and the Korneuburg shipyard are of benefit to the USSR and are a major loss to the DDSG of western Austria. The Korneuburg shipyard, which was severely damaged during World War II, has been continuously occupied since its reconstruction, first in rehabilitating damaged Satellite vessels and later in filling Soviet Bloc orders for new river craft 81/ in addition to continuing repair work. Estimates of employment at the yard range from about 800 to 1,800.

Soviet control of the Vienna port facilities not only has been a convenience for Soviet and Satellite shipping on the Danube but also has been a source of revenue from the west Austrian DDSG,

- 31 -

S-E-C-R-E-T

S-E-C-R-E-T

since it must pay a fee for the use of the facilities. 82/ These port facilities are essential to operations of the west Austrian DDSG under present conditions, but the successful completion of two modern harbors currently under development in the western sector of Vienna will make further reliance on the Soviet-controlled wharves unnecessary. 83/

C. Soviet Economic Policy in Austria.

Economic benefits can hardly be regarded as the only, or perhaps even as the principal, advantages which the USSR enjoys by virtue of its foothold in eastern Austria. Other considerations, which are largely outside the province of this report, may be mentioned briefly as a setting for the subsequent discussion of economic policies.

1. Strategic and Political Context.

First of all, Austria's location is strategically important. Austria possibly is second only to Germany as a crucial point of contact between the West and the East in Europe. The Soviet forces in eastern Austria occupy a vital position with respect to the rail and water transportation networks centered in Vienna. The Soviet zone of occupation also may be thought of as filling in the "pocket" on the border with Czechoslovakia and Hungary, which in this way are more effectively insulated from Western political and economic influences. With troops in Austria as well as in Hungary and Rumania, the USSR is in a better position to exert pressure on Yugoslavia. The continuing presence of Soviet troops in Hungary and Rumania is justified in the Allies' peace treaties with these countries by the necessity of maintaining and protecting lines of communication from the USSR to Austria. While this fiction is even less persuasive now than in 1946 and early 1947, when Hungary still had a non-Communist government and Soviet motives in Europe were less clear, it is still useful for propaganda purposes.

Austria also has an undeniable political value to the USSR. The Soviet position in Austria has repeatedly been used as a bargaining point within the larger sphere of power politics in Europe. During the years of negotiations over the Austrian treaty, Western representatives typically have reached agreement with Soviet representatives on one section or clause only to be confronted with new, and frequently unrelated, issues and conditions. In the course of the Treaty negotiations, Soviet representatives, at one time or another, interjected such matters as Yugoslavia's claim for \$150 million in reparations, and

- 32 -

S-E-C-R-E-T

S-E-C-R-E-T

for parts of the south Austrian provinces of Carinthia and Styria; the disposition of refugees in Austria; the progress of denazification; settlement of the "problem" of Germany; and the alleged failure of the Western powers to live up to the terms of the Italian peace treaty with respect to Trieste.

2. Economic Exploitation.

In the matter of economic policy, it seems clear that the first and foremost Soviet aim in Austria is simply exploitation. This economic drain on Austria has taken a number of forms, as already indicated. Large amounts of property were seized as "war booty" and, later, as German assets. Control of the oil industry and the USIA plants has provided the USSR with significant quantities of certain types of goods and with foreign exchange. The profits of Soviet-controlled enterprises in Austria have been augmented by disregard of Austrian legislation concerning taxes and duties. The USSR (as well as the UK and France) continued to charge Austria for occupation costs for 6 years after the US began paying its own costs.

Despite its dimensions, this exploitation by the USSR suggests a short-term, opportunistic approach rather than a carefully considered, long-term program for the sovietization of Austria or even of the eastern zone of occupation. The American Embassy in Vienna has pointed out that, during the first several years after the war, "efforts to exploit the Soviet economic and political strongholds in Austria were uncoordinated and erratic. It was, by and large, a hand-to-mouth occupation, determined by the contingencies of the day and directed toward immediate returns rather than long-range results. This was particularly the case with respects to Soviet activities in the economic field, where for a long time the sole discernible rule was rapacious exploitation." 84/

Later Soviet efforts in the economic field have been coordinated more effectively through the cooperation of the Soviet High Commissioner, the USIA, and the Austrian Communist Party, with the vigorous support of the Soviet-controlled press. 85/ It is still questionable, however, whether the USSR believes that the Austrian economy can ever be integrated into that of the Soviet Bloc. The people of Austria are firmly anti-Communist. In the parliamentary elections since the war (1945, 1949, and 1953), which have been free and fair contests, the Communists have received only about 5 percent of the total vote. The postwar coalitions of Socialist and (conservative)

- 33 -

S-E-C-R-E-T

S-E-C-R-E-T

People's Party members have formed stable and distinctly pro-Western and anti-Soviet governments. With the support of the US, the UK, and France, these governments have resisted Soviet pressure and abuse and have exercised increasingly broad powers within the framework of the new Allied Agreement on Control Machinery for Austria of June 1946.

Two signs that the USSR has limited economic objectives in Austria have already been touched on. First, through overdrilling and excessive rates of production in the oilfields of eastern Austria, the USSR has materially reduced the total yield which can ultimately be obtained. In other words, maximum recovery of oil from these fields with a reasonable expenditure of resources has been sacrificed for short-term gains. The Soviet practice is all the more difficult to understand because, even if the Long Draft Treaty is adopted and the occupation of Austria ended, the USSR is to continue to receive a large part of the country's petroleum output for a period of 30 years. Secondly, there have been numerous reports of serious depreciation and obsolescence of USIA facilities. Few investments which would maintain or increase the productivity of these plants apparently have been made. This action also suggests short-term goals rather than an expectation by the USSR that the economy of Austria or the Soviet zone of occupation can be brought under an effective degree of control.

3. Economic Obstruction.

A second aim of the USSR has been to obstruct the recovery and development of the economy of Austria. The zonal division of Austria following the war raised serious economic problems, since key resources and industries were very unequally distributed among the zones. Austria's iron mines, nearly all of its brown coal mines, and most of its iron and steel plants were located in the US and UK zones of occupation. The bulk of the country's resources of hydro-electric power and timber and the important magnesite deposits were also located in these two zones. ^{86/} On the other hand, most of the engineering industries were located in the Soviet zone, particularly in the Vienna area, and, as already pointed out, the oil resources were in eastern Austria exclusively. The Soviet zone also predominated in agriculture under normal conditions, although the food supply problem there was desperate during the winter of 1945-46 because of the heavy fighting and plunder in this area and the almost complete disorganization of commerce. ^{87/} Apart from substantial grants of aid from the Allies, the situation called for a prompt reduction in zonal trade barriers to facilitate the normal functioning of the economy.

- 34 -

S-E-C-R-E-T

S-E-C-R-E-T

In the first months of the occupation, the Allied military government assisted in the rehabilitation of Austria by restoring communications lines, and steps were taken to remove restrictions on the interzonal movement of goods and persons with the adoption by the occupying powers of the new Agreement on Control Machinery for Austria. But the USSR subsequently tried to block Austrian legislation dealing with the distribution of goods within Austria. Failing to secure Western approval for a stipulation that the Austrian Traffic of Goods Act and the decrees based on it should not apply to the property of the occupation powers and their nationals, the Soviet High Commissioner refused to permit the law to become effective in the Soviet zone. The USSR also attempted somewhat later to recover some degree of veto power over the legislation and implementing measures of the Austrian government. In signing the new Control Agreement, it had foregone this power except in the case of constitutional laws, which required the unanimous approval of the occupying powers. Other Soviet actions indicated regret that the new Control Agreement had been signed and an intention to do as much as possible to limit Austria's economic and political relations with the West. 88/

This aim of hampering the functioning of the Austrian economy is less in evidence now than in the first years after the war. Even at that time, some actions which were interpreted in this light were possibly more closely related to the typical concern of Soviet authorities with matters of internal security in their zone.

D. Applicability of the Long Draft Treaty.

Negotiations between the Western powers and the USSR over the State Treaty for Austria have continued, off and on, for about 8 years. The Western powers succeeded in bringing the matter before the Council of Foreign Ministers on 12 July 1946 after some months of delaying tactics by the USSR. Much of the discussion since that time has been carried on by Foreign Ministers' Deputies representing the Big Four. On 9 February 1953, the 260th meeting of the Deputies took place in London and ended in a deadlock. Efforts to reach agreement on the Treaty have been made during the intervening period, but, as the American Embassy in Vienna recently reported, the prospects for concluding the Treaty were, in fact, "never so bleak." 89/

The so-called Long Draft Treaty under discussion here is to be distinguished from the Abbreviated Treaty which the Western powers proposed to the USSR in March 1952 as a way of breaking the impasse

S-E-C-R-E-T

which had been reached. The Abbreviated Treaty, consisting of only 8 articles instead of the original 59 of the Long Draft, cut through some of the issues which had blocked agreement. In view of the continuation of Soviet takings from Austria during the more than 5 years of Treaty negotiations, the new draft provided for the return to Austria, without compensation to the USSR, of all properties held or claimed by the occupying powers. After a delay of 5 months, the USSR rejected the Abbreviated Treaty on the grounds that it was inconsistent with the Potsdam Agreement and failed to provide for elections and democratic rights in Austria and for the complete eradication of Nazism. Subsequently, resumption of discussions on the basis of the Long Draft Treaty was made conditional upon the unqualified withdrawal of the Abbreviated Treaty by the Western powers. This they were unwilling to do under pressure from the USSR.

The Austrian Treaty was discussed again at the Berlin Conference in February 1954. The Western representatives offered to accept the Soviet position on the five disputed articles of the Long Draft. Following a familiar pattern of Soviet tactics during the years of negotiations, Molotov proposed several additions to the Treaty. These provide, among other things, for the elimination of the Four-Power Allied Council for Austria and the evacuation of all foreign troops from Vienna, whereas withdrawal of other occupation forces from Austria is postponed until a peace treaty is concluded with Germany. Such an arrangement is completely unacceptable to the Western powers as well as to Austria.

1. Pertinent Provisions.

Article 34 of the Long Draft Treaty* provides that "no reparation shall be exacted from Austria arising out of the existence of a state of war in Europe after September 1, 1939." This article repeats the principle which was agreed to at Potsdam. As already indicated, its practical importance is negligible because the Soviet takings are not regarded by the USSR as reparations from Austria but rather as reparations from Germany through the medium of ownership of German foreign assets.

The Treaty's critical article of an economic nature is Article 35 on "German Assets in Austria." After 3 years of haggling

* The complete name is "Draft Treaty for the Re-establishment of an Independent and Democratic Austria." An unofficial text of this draft as it stood in 1953 (and now stands) is included in the Appendix in Cary T. Grayson, Jr., Austria's International Position, 1938-1953, Geneva, 1953, pp. 254-300.

- 36 -

S-E-C-R-E-T

S-E-C-R-E-T

over the German assets issue, Four-Power agreement was reached on Article 35 in late 1949. The most pertinent provisions of Article 35 are as follows:

1. The Soviet Union shall receive for a period of validity of thirty years concessions to oil fields equivalent to 60% of the extraction of oil in Austria for 1947, as well as property rights to all buildings, constructions, equipment, and other property belonging to these oil fields*

"2. The Soviet Union shall receive concessions to 60% of all exploration areas located in eastern Austria that are German Assets to which the Soviet Union is entitled in conformity with the Potsdam Agreement and which are in its possession at the present time

The Soviet Union shall have the right to carry out explorations on the exploration areas mentioned in the present article for 8 years and to subsequent extraction of oil for a period of 25 years beginning from the moment of the discovery of oil.

"3. The Soviet Union shall receive oil refineries having a total annual production capacity of 420,000 tons of crude oil

"4. The Soviet Union shall receive those undertakings concerned in the distribution of oil products which are at its disposal

"5. The Soviet Union shall receive the assets of the D.D.S.G., located in Hungary, Rumania and Bulgaria; and, likewise ... 100% of the assets of the Danube Shipping Company located in Eastern Austria.

"6. The Soviet Union shall transfer to Austria property, rights and interests held or claimed as German Assets together with existing equipment and shall also transfer war industrial enterprises, together with existing equipment, houses and similar immovable property, including plots of land, located in Austria held or claimed as war booty, with the exception of the assets mentioned in paragraphs 1, 2, 3, 4 and 5 of the present Article. Austria for its part undertakes to pay the Soviet Union 150,000,000 American dollars in freely convertible currency within a period of 6 years.

The said sum will be paid by Austria to the Soviet Union in equal three-monthly installments of 6,250,000 dollars in freely convertible currency

"7. (a) All assets which have become the property of the Soviet Union shall, as the general rule, remain under Austrian jurisdiction and, in conformity with this, Austrian legislation shall apply to them.

* The properties mentioned in this paragraph and in paragraphs 2, 3, 4, and 5 are identified in detailed lists and/or maps annexed to the Draft Treaty.

S-E-C-R-E-T

S-E-C-R-E-T

"(b) Where duties and charges, commercial and industrial rights and the levying of taxation are concerned, these assets shall be subject to conditions not less favorable than those which apply or will apply to undertakings belonging to Austria and its nationals and also to other states and persons who are accorded most-favored-nation treatment.

"(c) All former German assets which have become the property of the U.S.S.R. shall not be subject to alienation without the consent of the U.S.S.R.

"(d) Austria will not raise any difficulties in regard to the export of profits or other income (i.e., rents) in the form of output or of any freely convertible currency received."

2. Probable Effects of the Adoption of Article 35.

The adoption of Article 35 would be to Austria's economic advantage despite the properties and rights granted to the USSR. Austrian willingness to accept the provisions of Article 35 is, however, predicated as much on a desire to end the occupation and regain complete sovereignty as on anticipated economic benefits. Although the properties which would be returned to Austria have been of benefit to the USSR, they can hardly be considered vital. Adoption of Article 35 would not, therefore, have any far-reaching economic effects for the USSR.

The required payment to the USSR of \$25 million annually over a 6-year period probably would not be a serious economic burden for Austria. The amount is less than the annual income which Austria could expect to receive in earnings from the returned enterprises and in taxes and duties from the enterprises to be retained by the USSR, subject to Austrian law. Austria would receive all of the enterprises under USIA. The profits of this combine in 1953 are estimated at about \$21 million. The profits of the USIA enterprises presumably would decline if they became fully subject to Austrian law again and were required to pay the regular taxes and customs duties, but what Austria lost in profits it would gain in treasury revenues. There would, in fact, be a net gain in this respect if Section 7 (a) concerning the subjection of Soviet properties to Austrian legislation were effectively applied to the properties remaining in Soviet hands. Austria's payments to the USSR over the period of 6 years could be made contingent on Soviet payment of appropriate taxes and customs duties. To the extent that they exceeded the required payments to the USSR, Austria's profits from the properties which would be returned might be used for needed

- 38 -

S-E-C-R-E-T

S-E-C-R-E-T

investments in the USIA plants.

Although the amount of the required payment to the USSR should not be too burdensome, insistence that payment be made in US dollars, as stated in the Long Draft, could cause some difficulty for Austria. The sum of \$150 million is a large additional amount for Austria to earn in dollars over a 6-year period unless trade conditions are decidedly favorable, as they have been during the past year. On the other hand, Austria has now accumulated some \$300 million in gold and dollars, and it is possible that the USSR would accept goods in place of dollars.

In view of the limited resources of coal in Austria, it is particularly unfortunate that its oil resources have been exploited largely for the benefit of two foreign powers. An overwhelming proportion of Austria's output of crude oil and petroleum products would, moreover, remain under the control of the USSR even if a Treaty were concluded on the basis of the Long Draft. Although Section 1 of Article 35 ostensibly gives the USSR a 60-percent share of Austria's oil output, the specific properties which the USSR would retain now represent well over 90 percent of the total production of crude oil in Austria.

This division of properties was made on the basis of production in 1947. The three-fold increase in the output of crude oil from 1947 to 1953 was concentrated in the fields which would be retained by the USSR. Similarly, the capacity of the oil refineries which the USSR would retain pursuant to Section 3 has now been expanded to considerably more than 420,000 tons. Austria therefore probably would have to continue to buy a substantial part of its requirements of crude oil and petroleum products from SMV after the conclusion of the Treaty.

The 30-year term of the oil concessions is sufficient to permit a fairly thorough exploitation of this resource by the USSR. Important additional resources of oil may be discovered, but the best evidence is that Austria's oil fields will be badly depleted in 10 or 15 years.

Since the remaining assets of the DDSG in eastern Austria are negligible, the treaty provision concerning their transfer to permanent Soviet ownership does not raise serious problems. More important to Austria than these remnants of DDSG is continuing unimpeded use of the Danube and its tributaries within Austria.

Sections 7 (b) and 7 (d) of Article 35 provide that the enterprises in Austria which are to remain under Soviet ownership will

- 39 -

S-E-C-R-E-T

S-E-C-R-E-T

not be discriminated against. Section 7 (c) insures that the transfer of certain properties to Soviet ownership and control will not be nullified by subsequent nationalization by the Austrian government. Inclusion of this clause no doubt was prompted by Austrian efforts to forestall Soviet seizure of many alleged German industrial and commercial enterprises after the war by nationalizing them.

II. Trade of Austria with the Soviet Bloc.

A. Introduction.

The Austro-Hungarian Empire was a relatively well-balanced, self-sufficient economic unit, but the Austria which emerged from it after World War I has been described, from an economic point of view, as "an irrational fragment." The new Austrian Republic contained only one-eighth of the area and one-seventh of the population of the old Hapsburg Empire. Most of the Empire's arable land and coal deposits were within the areas of the Succession States. Austria was left with a force of government employees, a professional class, engineering and light industries, and service businesses which were far beyond the needs of a nation of 7 million people. Moreover, the political and economic nationalism of the time offered little prospect that the specialized economic structure of Austria could be integrated with the Eastern European economies through the medium of international trade.

Efforts to correct these structural defects in Austria's economy were made during the interwar period and again after World War II. Some steps in this direction were also taken by Germany during the war, although other German economic activities had the opposite effect. All in all, the attempts over the past 35 years to create a more viable economy in Austria have enjoyed a considerable degree of success. Austria must still rely on other countries for essential supplies of food and raw materials, but its dependence on imports is probably little greater than that of the UK and several other countries in western Europe.

Austria's trade with Eastern Europe has, of course, been affected by the application of Soviet trade policies in that area since the war, that is, by Soviet and Satellite goals of national self-sufficiency on the one hand and increasing intra-Bloc trade and economic cooperation on the other. It has also been influenced by the desire of Austria to reduce its dependence on imports for supplies of commodities

- 40 -

S-E-C-R-E-T

S-E-C-R-E-T

in two vital categories, namely foodstuffs and energy materials. Thus one of Austria's first objectives after World War I was to build up the agricultural sector of the economy. This expansion was limited by the amount of arable land, which makes up less than one-fourth of the total area, but the area under cultivation was enlarged to some extent, and more intensive cultivation of land was undertaken through the increased use of machinery and fertilizer.

By 1937, the country was able to raise about three-fourths of its food requirements -- a considerable improvement over the years immediately following World War I. Enlargement of this sector of the economy was set back during the German occupation, since it was the policy of Germany to promote industry in Austria and import a larger portion of the necessary food supplies from eastern Europe. Agricultural manpower was shifted to industry and the army, and adequate supplies of machinery and fertilizer were unobtainable.

Increased production of agricultural commodities in Austria again became an objective of high priority after World War II. The large nitrogen works built at Linz by the Germans during the war has been very useful in this respect. This plant produces a quantity of nitrogen fertilizer which not only meets domestic needs but permits some exports. The economic aid which Austria received from the US under the European Recovery Program included large amounts of food, but the more fundamental aim of the program in the agricultural sphere was the restoration of domestic production to the prewar level by 1953. This goal was realized, so that Austria has once again become able to produce about three-fourths of its food requirements.

Similarly, an attempt has been made to reduce Austrian dependence on imported coal as a source of energy. The buildup of heavy industry during and after the war has resulted in a more diversified industrial structure than in 1937 but has greatly increased the country's energy requirements. In spite of this, Austria is more nearly self-sufficient in energy materials now than before the war. It is, consequently, less vulnerable to Soviet economic pressure and to a general deterioration of world trade and any consequent restrictive effect on its exports.

The readjustment in the energy sector has taken a number of forms. Foremost among these is further development of the country's substantial resources of hydroelectric power and, in conjunction with this, electrification of additional segments of the railway system.

- 41 -

S-E-C-R-E-T

S-E-C-R-E-T

Exploitation of Austrian petroleum resources has also lessened the degree of dependence on imported coal, despite the fact that the oil fields and refineries have been under Soviet control since the war. Finally, domestic production of brown coal has been increased nearly three-fourths since 1937. The net effect of these changes is that a higher proportion of Austria's energy needs are now satisfied by domestically produced hydroelectric power and petroleum, and domestic production of coal now provides a larger share of the total consumption of coal.

These structural changes are reflected in the data in the next three subsections concerning the volume, geographical distribution, and commodity composition of Austria's trade with the Soviet Bloc. It should be noted that the data related only to the officially reported trade of Austria. As stated above, USIA and SMV make exports to and imports from the Bloc under the cover of "military shipments," generally without any accounting to the Austrian government. For this reason, the official foreign trade statistics do not include by far the larger part of the exports and imports of the Soviet-controlled enterprises. The preceding discussion of the unreported trade between these enterprises and the Soviet Bloc is supplemented by some additional remarks in the fourth subsection following.

B. Volume of Trade.

As a point of departure in analyzing the trade of Austria with the Soviet Bloc, it is useful to consider the trend in the volume* of Austria's trade with the entire world. Although a degree of recovery in trade was accomplished during the immediate postwar years, the total volume of Austria's exports in 1948 was still little more than one-half the level of 1937 (see Table 6** and Figure 2***). The volume of imports in 1948 amounted to two-fifths of the 1937 figure, counting only commercial transactions, but exceeded four-fifths of the 1937 level if goods received as direct aid under the European Recovery Program are also included. As a result of the receipt of direct aid from the US, total imports surpassed the prewar level by a small margin during the

* The term "volume" is used throughout this section to signify the value of trade in terms of constant prices and, where values are expressed in dollars, in terms of constant exchange rates for the Austrian schillings and the US dollar.

** Table 6 follows on p. 43.

*** Following p. 44.

S-E-C-R-E-T

S-E-C-R-E-T

following 4 years, but the volume of commercial imports has yet to exceed 90 percent of the 1937 level. Exports, on the other hand, have been increased considerably since 1948, reaching nearly $1\frac{1}{2}$ times the 1937 volume in 1953.

Table 6

Indexes of the Volume a/ of Total Recorded Trade
of Austria 90/
1937 and 1948-53

			1937 = 100
	<u>Imports</u>		<u>Exports</u>
	<u>Total</u>	<u>Commercial b/</u>	
1937	100	100	100
1948	83	41	54
1949	107	77	67
1950	102	78	101
1951	106	87	110
1952	101	89	109
1953	92	85	146

a. Indexes of the value of imports and exports calculated in terms of Austrian schillings on the basis of constant prices.

b. "Commercial imports" equal total imports less goods received from the US as "direct aid" under the European Recovery Program. In general, "direct aid" consists of US allotments of dollars to pay for Austrian imports of essential goods from either members or nonmembers of the European Payments Union. "Indirect aid," which is included in commercial imports, consists of the amounts paid by the US in settling Austria's unfavorable balances of trade with the European Payments Union. Of the total aid of about \$1 billion which Austria received under ERP, two-thirds was "direct" and one-third "indirect."

Such an increase in exports, coupled with the limitation of commercial imports in 1953 to some 85 percent of the 1937 volume, might be supposed to have resulted in a large favorable balance on the trade account. This was not the case for two reasons. In the first

- 43 -

S-E-C-R-E-T

S-E-C-R-E-T

place, Austria's terms of trade have deteriorated seriously since 1937. Because of the failure of the prices of exports to keep up with the prices of imports, the volume of goods which Austria had to export in 1953 to pay for a given volume of imports was 37 percent greater than in 1937.* A second explanation of the failure of the large relative increase in exports to produce a similarly large favorable trade balance is found in the fact that the volume of exports was considerably less than the volume of imports in the base year of 1937. This situation was feasible in 1937 because of Austria's net earnings on the services account. The reduction in earnings from tourist trade, transit trade, and foreign investments following the war has required a relative increase in exports in order to bring commodity trade more nearly into balance.

The foreign trade position of Austria in 1953 was unusually favorable. Despite the decline of 9 percent in total imports, as a result of the conclusion of the US aid program, and a small reduction in commercial imports, Austria succeeded in increasing its volume of exports one-third over 1952. Import requirements were reduced by the good harvest in 1952 and by the larger and more regular receipts of fuel oil from SMV, which permitted a cut in coal imports. Limitation of imports and stimulation of exports were also furthered by the devaluation of the schilling in May 1953.

One of the most striking changes in Austria's foreign trade since 1937 is the decline in the importance of trade with the Soviet Bloc. The volume of such trade has not amounted to as much as one-half of the prewar level in any year since the war. The volume of imports from the Bloc in 1953 was at the lowest point of the past 6 years, amounting to only one-fourth of the 1937 volume (see Table 7**). The volume of exports in 1953, on the other hand, increased about 10 percent over 1952, approaching one-half of the 1937 level. The reasons for the much smaller decline in exports than in imports since 1937 are the same as those given above with reference to the total trade of Austria.

The net effect of these changes is that the proportion of Austria's imports obtained from the countries of the Soviet Bloc declined from 39 percent of the total in 1937 to only 11 percent in 1953. The share of the Soviet Bloc in Austria's total exports declined similarly -- from 35 percent of the total in 1937 to 11 percent

* Calculated from data in source 91/.

** Table 7 follows on p. 45.

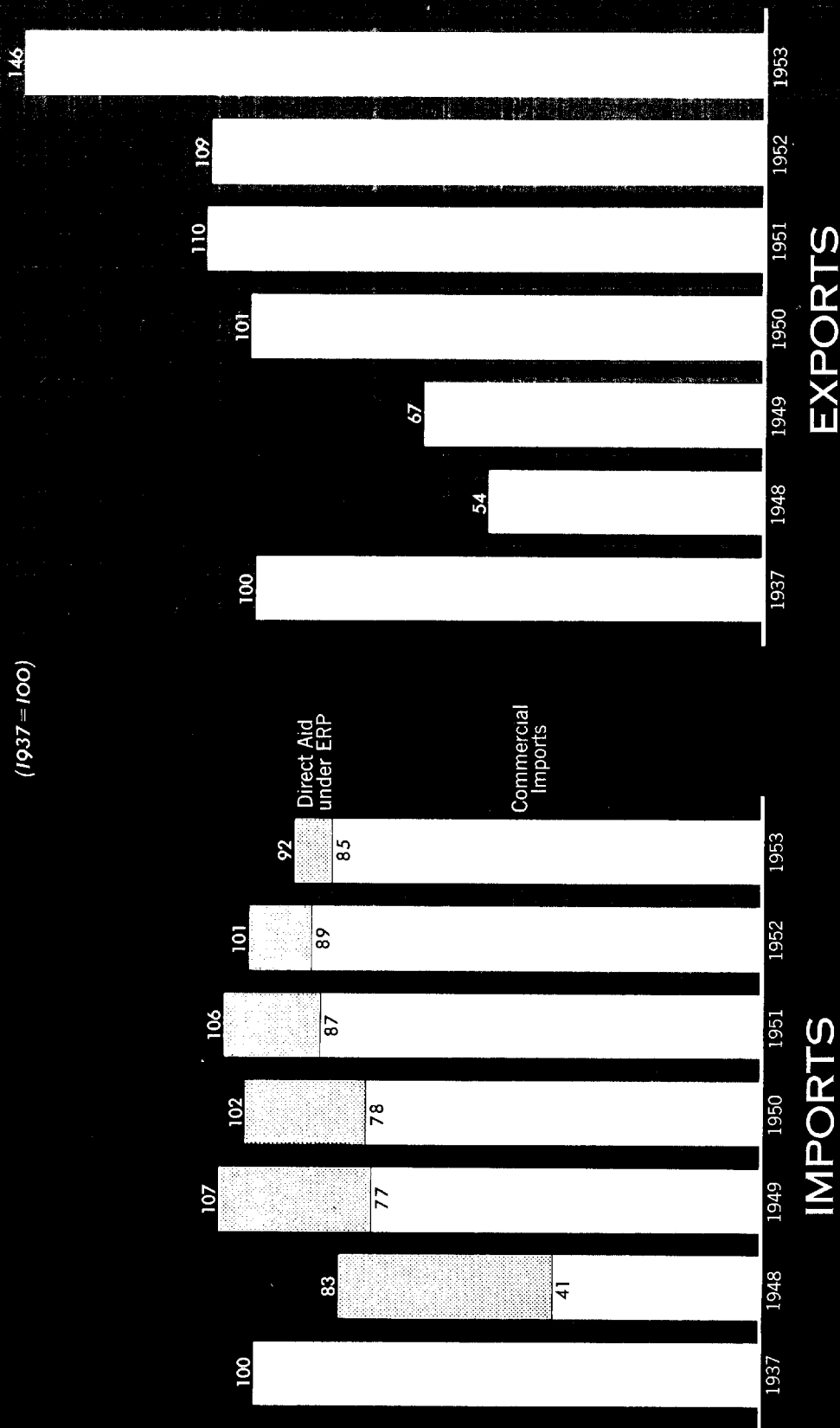
S-E-C-R-E-T

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Indexes of the Volume of Total Recorded Trade, 1937 and 1948-53

(1937 = 100)



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S-E-C-R-E-T

in 1953 (see Table 8* and Figure 3**). The volume of Austria's total trade turnover with the Bloc in 1953 was, moreover, 15 percent below the turnover in 1949, the postwar peak.

Table 7

Indexes of the Volume a/ of the Recorded Trade
of Austria with the Soviet Bloc b/
1937 and 1948-53

	1937 = 100	
	<u>Imports</u>	<u>Exports</u>
1937 <u>c/</u>	100	100
1948	27	23
1949	41	35
1950	32	45
1951	30	43
1952	30	41
1953	26	46

a. Indexes of the value of imports and exports calculated in terms of Austrian schillings on the basis of constant prices.

b. Data are from column 4 of Table 14, p. 59, below.

c. Data are adjusted to reflect the major changes in boundaries since 1937. See Appendix B, Methodology, for a description of the adjustment.

C. Geographic Distribution of Trade.

Poland was Austria's leading trade partner among the countries of the Soviet Bloc in 1953, accounting for a little more than one-third of Austrian imports and somewhat less than one-third of Austrian exports. The remainder of Austria's trade with the Bloc was fairly well distributed among Czechoslovakia, East Germany, Rumania, Bulgaria,

* Table 8 follows on p. 46.

** Following p. 46.

- 45 -

S-E-C-R-E-T

S-E-C-R-E-T

Table 8

Recorded Trade with the Soviet Bloc as a Proportion of the Total Recorded Trade of Austria
1937 and 1943-53

Monetary Values at 1953 Prices and Exchange Rates						
	Imports			Exports		
	Total Imports a/ (Million \$)	Imports from the Soviet Bloc b/ (Million \$)	Imports from the Bloc as Percent of Total	Total Exports a/ (Million \$)	Exports to the Soviet Bloc b/ (Million \$)	Exports to the Bloc as Percent of Total
1937	597.6	232.9	39	359.6	126.0	35
1948	496.6	62.7	13	193.5	29.5	15
1949	640.2	95.3	15	247.5	44.0	18
1950	608.9	75.8	12	364.1	56.6	16
1951	636.8	71.0	11	402.9	54.2	13
1952	604.0	69.7	12	400.5	51.4	13
1953	545.7	60.1	11	537.6	58.5	11

a. Data are from column 5 of Table 12, p. 57, below.

b. Data are from column 7 of Table 14, p. 59, below.

- 46 -

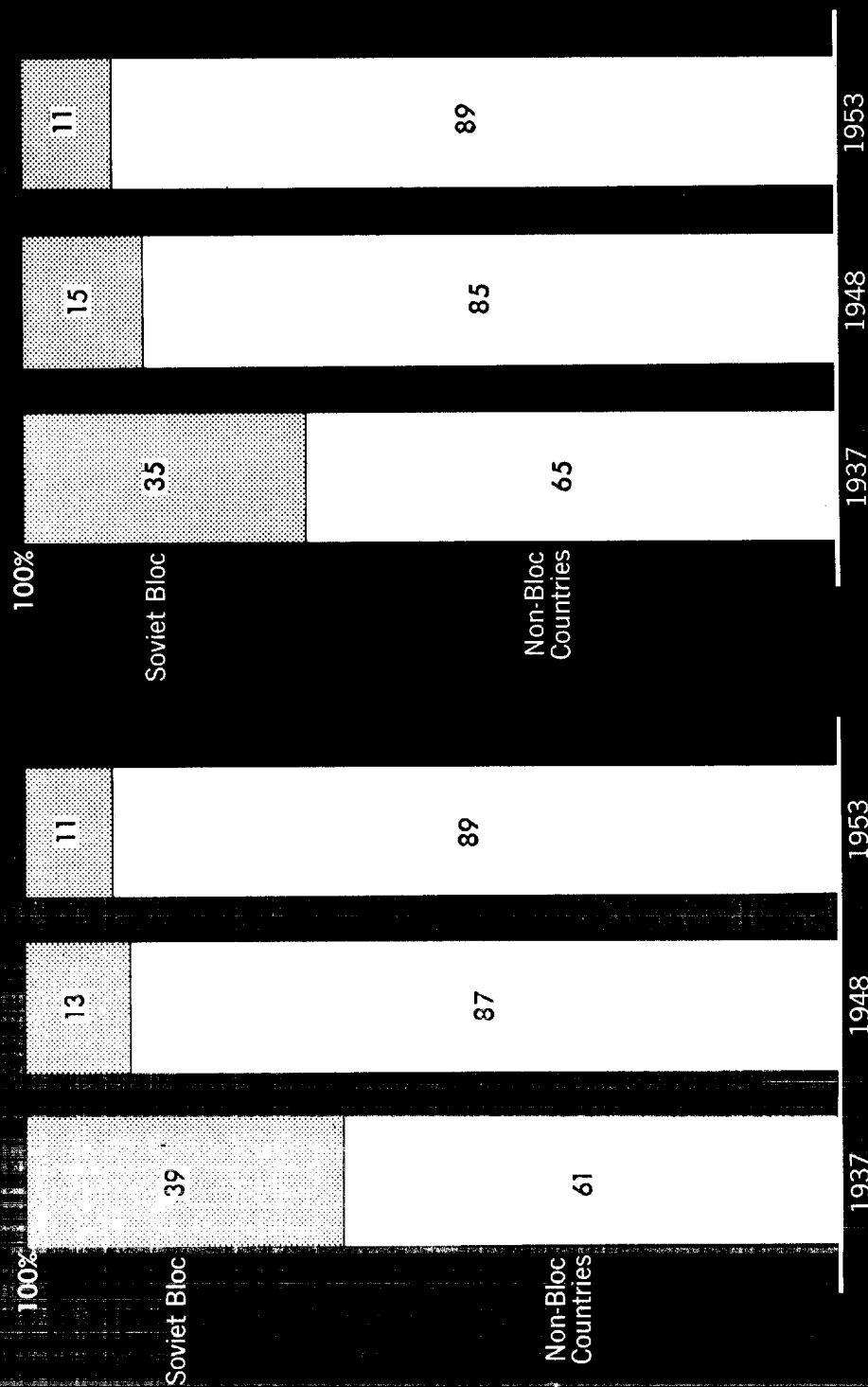
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Figure 3

Geographic Distribution of Total Recorded Trade, 1937, 1948, and 1953



IMPORTS

EXPORTS

SECRET

S-E-C-R-E-T

and Hungary (see Table 9* and Figure 2**). Austrian trade with the USSR, China, and Albania was very minor in 1953, as in previous years.

The relative importance of the European Satellites in Austrian trade has shifted appreciably since 1937, as Table 9 indicates. To make the data in Table 9 more comparable, the figures for 1937 have been adjusted to reflect the major boundary changes since 1937. Poland, Bulgaria, and (to a lesser extent) East Germany have increased their shares of Austrian trade with the Bloc since 1937, whereas the shares of Hungary, Czechoslovakia, and the USSR have decreased. The indicated decline in trade with the USSR is almost entirely the result of the territorial adjustment of the data. Austria's trade with the USSR in 1937 was negligible, and the acquisition by the USSR of parts of Poland, Rumania, and Czechoslovakia after World War II has not resulted in a materially larger volume of trade with the USSR of 1953.

Some marked changes in the Satellites' respective shares of Austrian trade have also occurred since 1948. Czechoslovakia held a dominant position in Austrian trade with the Bloc during the period 1948-51, but this is no longer the case. Trade with Hungary, as a proportion of the Bloc totals, has also declined considerably since 1948, while Poland, Rumania, Bulgaria, and East Germany***, have increased their shares.

D. Commodity Composition of Trade.

1. Imports.

The broad commodity composition of Austria's imports in 1953 is shown in Table 10.**** Foodstuffs accounted for nearly one-fourth of the total imports. Ranking next in value were categories comprising inedible crude materials (except fuels), mineral fuels and related products, machinery and transport equipment, and manufactured materials.

At this level of commodity classification, the only sizable shares of total Austrian imports provided by the Soviet Bloc are found

* Table 9 follows on p. 48.

** Following p. 44, above.

*** No estimate of Austria's trade with East Germany in 1948 is available, but it can be assumed that the volume of such trade was less than in 1950, when it made up less than 5 percent of the total trade with the Bloc.

**** Table 10 follows on p. 49.

- 47 -

S-E-C-R-E-T

S-E-C-R-E-T

Table 9

Geographic Distribution of Austria's Recorded Trade with the Soviet Bloc a/
1937 and 1943-53

Imports, by Country of Origin										Percent of Total
	Albania	Bulgaria	Czecho-slovakia	East Germany	Hungary	Poland	Rumania	USSR	China	Total Bloc
1937 b/	c/	3	27	10	23	12	13	10	2	100
1948	c/	6	48	N.A.	21	21	4	c/	c/	100
1949	c/	5	41	N.A.	22	26	6	c/	c/	100
1950	c/	3	35	4	17	37	4	c/	c/	100
1951	c/	2	30	10	18	35	5	c/	c/	100
1952	c/	6	28	11	15	35	5	c/	c/	100
1953	c/	10	17	13	8	36	14	c/	2	100

Exports, by Country of Destination										Total Bloc
	Albania	Bulgaria	Czecho-slovakia	East Germany	Hungary	Poland	Rumania	USSR	China	Total Bloc
1937 b/	c/	2	20	11	27	13	13	11	3	100
1948	c/	8	50	N.A.	24	10	6	c/	2	100
1949	c/	10	40	N.A.	23	20	6	c/	1	100
1950	c/	4	39	5	24	20	7	c/	1	100
1951	c/	1	39	7	12	33	7	c/	1	100
1952	c/	7	30	9	16	28	9	1	c/	100
1953	c/	13	16	16	12	28	12	3	c/	100

a. Computed from data in Table 13 (before rounding), p. 58, below.
 b. Data are adjusted to reflect the major changes in boundaries since 1937.
 c. Negligible percentage.

- 48 -

S-E-C-R-E-T

S-E-C-R-E-T

Table 10

Commodity Composition of Austria's Recorded Total Imports and Imports from the Soviet Bloc a/
1953

	Total Imports		Imports from the Soviet Bloc		Imports from the Bloc, by Major Countries of Origin (Million \$)					
	Value (Million \$)	Percent of Total Imports	Value (Million \$)	Bloc Imports as Percent of Total Imports in the Category	Bulgaria	Czechoslovakia	East Germany	Hungary	Poland	Rumania
Total, All Commodities	545.7	100	60.1	11	6.3	10.1	8.0	5.0	21.4	8.7
Foodstuffs	127.1	23	20.4	16	5.4	1.5	0.8	3.2	1.4	8.6
Sugar and Sugar Preparations	13.3	2	3.0	23		1.1	0.7	0.9	0.3	
Cereal and Cereal Preparations	62.7	11	13.8	22	4.3	0.1	0.1	0.9	0.5	7.8
Wheat	27.4	5	7.7	28	3.5			0.2		4.0
Corn	24.7	5	3.0	12	0.6			0.6		1.1
Beverages and Tobacco	11.2	2	0.6	5	0.6					
Indigestible Grude Materials, except Fuels	93.0	17	2.3	2	0.1			0.4	0.1	0.1
Mineral Fuels and Related Products	89.3	16	29.2	33		6.0	3.3		19.8	0.1
Coal, Coke, and Lignite	77.2	14	25.6	33		5.8		0.8	19.8	
Animal and Vegetable Fats and Oils	15.1	3	1.0	7	0.2					
Chemicals	36.0	7	0.8	2		0.4	0.3	0.1		
Manufactured Materials	76.6	14	1.5	2		0.5	0.7	0.2		
Machinery and Transport Equipment	83.2	15	2.7	3		1.1	1.5	0.1		
Other	14.2	3	1.6	11		0.1	0.4			

a. Schilling values in source 92/ are converted to dollars at the effective average exchange rates.

- 49 -

S-E-C-R-E-T

S-E-C-R-E-T

in the categories of mineral fuels (33 percent) and foodstuffs (16 percent). Within the foodstuffs category, the Bloc provided over one-fifth of the imports of sugar and sugar preparations and cereal and cereal preparations in 1953. Twenty-eight percent of total wheat imports are included in the latter category. In all, about \$50 million of the \$60 million of imports from the Bloc consisted of mineral fuels and foodstuffs. Very small proportions of the goods in the other three main categories of imports are obtained from the Bloc, and, as already pointed out, the Bloc's over-all share of Austrian imports was only 11 percent in 1953.

Table 10 shows that Poland and, to a lesser extent, Czechoslovakia were the sources of the coal imports. Czechoslovakia, Hungary, and East Germany provided most of the sugar, whereas the cereals were supplied chiefly by Rumania and Bulgaria.

2. Exports.

Apart from the largely unrecorded shipments of crude oil and petroleum products to the Bloc, Austrian exports in 1953 consisted primarily of manufactured materials, inedible crude materials (except fuels), and machinery and transport equipment (see Table 11*). The Soviet Bloc received only 11 percent of the items in the manufactured materials category, which made up one-half of total Austrian exports, but this included 19 percent of the bricks and slabs of magnesite and graphite and 35 percent of the steel bars. About 30 percent of the exports of machinery and transport equipment went to Bloc countries. Nearly all of the inedible crude materials were exported to non-Bloc countries; consequently, the preceding two commodity groups include most of the exports to the Bloc. Within these categories, iron and steel and nonelectrical machinery and parts each represented about one-fourth of Austria's total exports to the Bloc in 1953. Austrian exports of manufactured materials to the Bloc were widely distributed among the various countries in 1953, but about two-fifths of the exports of machinery and transport equipment were received by Poland.

E. Relative Extent of Unrecorded Trade.

As already stated, an accurate picture of Austria's trade with the Soviet Bloc cannot be obtained from official statistics alone. The Russians may ship goods out of or into Austria under the pretext

* Table 11 follows on p. 51.

- 50 -

S-E-C-R-E-T

S-E-C-R-E-T

Table 11

Commodity Composition of Austria's Recorded Total Exports and Exports to the Soviet Bloc a/
1953

	Total Exports		Exports to the Soviet Bloc		Exports to the Bloc, by Major Countries of Destination (Million \$)				
	Value (Million \$)	Percent of Total Exports	Value (Million \$)	Bloc Exports as Percent of Total Exports in the Category					
					Bulgaria	Czechoslovakia	East Germany	Hungary	Roland Romania
Total, All Commodities	537.6	100	58.5	11	7.5	9.3	9.2	6.8	17.0
Foodstuffs	11.5	2	0.2	2		0.1		0.1	
Inedible Crude Materials, except Fuels	140.4	27	4.0	3	0.3	0.9	0.5	1.0	0.9
Wood and Lumber	96.7	18	1.0	1			0.1	0.8	
Wood Pulp	15.0	3	0.2	1	0.1				
Mineral Fuels and Related Products	12.2	2	0.5	4		0.5			
Chemicals	23.5	4	4.7	20	0.4	0.9	0.3	0.3	2.7
Manufactured Materials	259.7	49	27.9	11	4.4	4.1	5.3	4.3	5.0
Iron and Steel	112.0	21	14.2	13	2.8	2.9	3.7	2.0	1.7
Steel Bars	16.8	3	5.9	35	1.6	1.6	1.0	1.1	0.2
Bricks and Slabs of Magnesite and Granite	22.2	4	4.3	19		0.1	0.3	0.8	2.4
Machinery and Transport Equipment	65.8	12	19.2	29	2.3	2.6	1.9	1.1	8.0
Electrical Machinery and Parts	13.9	4	4.5	24	0.9	0.7	0.2	0.1	2.3
Nonelectrical Machinery and Parts	36.1	7	13.2	37	0.6	1.8	1.7	0.9	5.7
Transport Equipment	10.3	2	1.5	14	0.9	0.1			
Miscellaneous Manufactured Articles	23.4	4	2.0	9	0.1	0.1	1.3	0.1	0.4

a. Schilling values in source [23] are converted to dollars at the effective average exchange rates.

- 51 -

S-E-C-R-E-T

S-E-C-R-E-T

that they are "military transports," and this may be done without a license from, or even without the knowledge of, the Austrian government. In some cases, Soviet authorities have requested export licenses in order that the foreign exchange received for the goods might be converted into Austrian schillings in the customary way. A large proportion of the production of both the USIA and SMV enterprises is sold in Austria for schillings, which are needed to pay their operating expenses. Consequently, it is not thought that the need for schillings has forced the USSR to obtain export licenses for a very extensive portion of the USIA and SMV exports to the Bloc. If this is the case, it follows that the bulk of such shipments is not included in the official Austrian trade statistics presented above. Similarly, goods which the USSR imports into Austria from the Bloc, such as consumer goods for the chain of retail stores under USIA and possibly materials and equipment for the use of SMV and the USIA industrial enterprises, are not included in the official Austrian statistics.

In I, B, 1, above, the value of USIA exports to the Soviet Bloc is estimated at something like \$28 million in 1953. The rough estimate in I, B, 2, above, of the value of Austrian crude oil and petroleum products shipped to Bloc countries in 1953 is still higher -- about \$52 million. The combined value of these largely unrecorded export to the Bloc is \$80 million, or one-third more than the \$58.5 million of recorded exports to the Bloc in 1953. The estimated value of the exports of USIA and SMV to the Bloc in 1952 is \$77 million compared (at 1952 prices and exchange rate) with recorded exports to the Bloc of \$64 million. A numerical estimate of the extent of unrecorded imports is not possible with the data at hand, but it seems safe to say that such imports have been small compared with the volume of unrecorded exports.

F. Austrian Dependence on Trade with the Soviet Bloc.

A general contraction of world trade would raise difficulties for Austria, in common with the other industrialized countries of Europe, but Austria probably is in a better position now to cope with such a development than ever before. One indication of the lessened dependence of Austria on imports is found in the fact that industrial production in 1953 was 70 percent above the level of 1937, ^{94/} although the total volume of imports was smaller in 1953 than in 1937 and has not exceeded the prewar level by more than 7 percent in any of the past 6 years. Imports of raw materials have declined 20 percent since 1937 ^{95/} despite the indicated increase in industrial production.

- 52 -

S-E-C-R-E-T

S-E-C-R-E-T

The greatly increased domestic production of energy materials has already been remarked on. Relatively greater reliance on domestic supplies of raw materials in place of imports has also been facilitated by the development of industries producing staple fibers and chemicals.96/

The data presented above in regard to the volume and composition of Austrian trade with the Soviet Bloc do not suggest that Austria is seriously dependent on such trade. Recorded imports from the Bloc in 1953 represented only 11 percent of total imports. Coal and foodstuffs, particularly cereals, were the most essential items received from the Bloc, but only 33 percent of the imports of coal, coke, and lignite and 16 percent of the imports of foodstuffs were obtained from the Bloc in 1953. Since nearly two-fifths of Austrian consumption of coal (on a hard coal basis) was produced domestically in 1953, 97/ Austria obtained only one-fifth of its total coal requirements from the Soviet Bloc. Austria is now producing 75 to 80 percent of its food supplies; consequently, the imports of foodstuffs from the Soviet Bloc in 1953 made up only about 4 percent of food consumption in Austria.

It seems doubtful that trade of this extent could be used effectively by the Soviet Bloc as an economic weapon against Austria. The already large imports of coal from the Ruhr and the Saar could be increased, although such a shift of coal imports away from the Bloc would probably entail somewhat higher costs. Any severe limitation of petroleum product deliveries to Austria by SMV presumably could be made up at a moderate additional cost from other sources, such as the Middle East. Pressures which the Bloc countries might try to exert through the manipulation of the volume or prices of their cereal exports to Austria are largely circumscribed by the competitive world market for cereals.

Austria must, of course, maintain a certain level of exports in order to pay for the imports of needed foodstuffs and coal, among other things. The loss of the Soviet Bloc as an export market probably would not be critical, in view of its small share of Austrian exports in 1953. Austrian exports to the Soviet Bloc may, on the other hand, increase during the next several years. This probably would require better performance on deliveries and payments on the part of the Bloc countries than in the past, as well as some concessions to Austria with respect to prices and types of goods to be exchanged. Because of the changed economic circumstances in both areas, it seems unlikely, however, that the volume of trade between Austria and the Bloc would be increased to anything like the prewar volume.

- 53 -

S-E-C-R-E-T

S-E-C-R-E-T

APPENDIX A

TABLES 12-14

- 55 -

S-E-C-R-E-T

S-E-C-R-E-T

Table 12

Total Recorded Trade of Austria: Adjustment of Data from a Current Basis to a 1953 Basis
1937 and 1943-53

	(1) Value of Trade at Current Prices ^{98/} (Million Schillings)	(2) Index of Average Prices ^{99/} (1937=100)	(3) Index of Average Prices (1953=100)	(4) Value of Trade at 1953 Prices ^{a/} (Million Schillings)	(5) Value of Trade at 1953 Prices and 1953 Exchange Rates ^{b/} (Million \$)
<u>Imports</u>					
1937	1,453	100	10.0	14,530	597.6
1948	3,900	323	32.3	12,074	496.6
1949	6,366	409	40.9	15,565	640.2
1950	9,208	621	62.2	14,804	608.9
1951	14,027	905	90.6	15,432	636.8
1952	13,959	950	95.1	14,686	604.0
1953	13,269	999	100.0	13,269	545.7
<u>Exports</u>					
1937	1,217	100	13.8	8,819	359.6
1948	1,984	304	41.8	4,746	193.5
1949	3,229	387	53.2	6,070	247.5
1950	6,510	530	72.9	8,930	364.1
1951	9,635	709	97.5	9,882	402.9
1952	10,796	799	109.9	9,823	400.5
1953	13,187	727	100.0	13,187	537.6

a. Column 1 divided by column 3.

b. Column 4 multiplied by the effective average exchange rates for total imports and total exports in 1953 as indicated by the schilling and dollar values in source ^{100/}. The computed rates are \$0.04113 per schilling for imports and \$0.04077 per schilling for exports.

- 57 -

S-E-C-R-E-T

S-E-C-R-E-T

Table 13

Recorded Trade of Austria with the Soviet Bloc, by Country a/
1937 and 1948-53

	Imports, by Country of Origin								Million Current \$	
	Albania	Bulgaria	Czecho- slovakia	East Germany	Hungary	Poland	Rumania	USSR	China	Total
1937 b/	c/	2.7	28.3	10.8	24.7	12.9	13.3	10.3	2.0	105.0
1948	c/	3.4	27.0	N.A.	11.7	12.0	2.3	c/	0.2	56.6
1949	c/	4.0	34.3	N.A.	18.1	21.9	5.1	0.1	0.2	83.7
1950	c/	2.1	23.3	2.9	11.6	24.7	2.5	0.1	0.1	67.3
1951	c/	1.3	21.6	7.4	13.1	24.6	3.6	c/	0.3	71.9
1952	c/	4.2	20.3	8.3	11.3	25.3	4.0	0.1	c/	73.5
1953	c/	6.3	10.1	8.0	5.0	21.3	8.3	0.1	1.0	60.1

	Exports, by Country of Destination								Million Current \$	
	Albania	Bulgaria	Czecho- slovakia	East Germany	Hungary	Poland	Rumania	USSR	China	Total
1937 b/	0.2	2.0	15.4	8.3	20.9	10.2	10.4	8.3	2.6	78.3
1948	c/	2.4	14.9	N.A.	7.3	2.9	1.7	c/	0.7	29.9
1949	c/	5.7	22.2	N.A.	13.3	11.6	3.4	c/	0.8	57.0
1950	c/	2.4	23.0	2.9	13.7	11.5	4.0	c/	0.4	57.9
1951	c/	0.7	24.0	4.1	7.1	19.8	4.0	c/	0.8	60.5
1952	c/	4.6	19.5	5.6	10.0	18.0	5.9	0.3	0.3	64.2
1953	c/	7.5	9.3	9.2	6.8	17.1	7.1	1.5	c/	58.5

a. Data prior to 1953 are from the US Department of Commerce, supplemented in some instances by data from source 101/. Data for 1953 are from source 102/.

b. Data are adjusted to reflect the major changes in boundaries since 1937. See Appendix B, Methodology, for a description of the adjustment.

c. Negligible amount, generally less than \$50,000.

- 58 -

S-E-C-R-E-T

S-E-C-R-E-T

Table 14

Recorded Trade of Austria with the Soviet Bloc: Adjustment of Data to Eliminate Changes in Prices 1937 and 1948-53

	(1) Value of Trade at Current Price \$/ (Million Schillings)	(2) Index of Average Prices b/ 1937/ (1937=100)	(3) Value of Trade at 1937 Prices g/ (Million Schillings)	(4) Index of Volume of Trade d/ (1937=100)	(5) Index of Average Prices g/ (1953=100)	(6) Value of Trade at 1953 Prices f/ (Million Schillings)	(7) Value of Trade at 1953 Prices and 1953 Exchange Rates e/ (Million \$)
Imports							
1937	567	100	567	100	10.0	5,670	232.9
1948	566	372	152	27	37.1	1,526	62.7
1949	942	407	231	41	40.6	2,320	95.3
1950	1,155	628	184	32	62.6	1,845	75.8
1951	1,546	397	172	30	89.4	1,729	71.0
1952	1,572	930	169	30	92.7	1,606	69.7
1953	1,463	1,003	146	26	100.0	1,463	60.1
Exports							
1937	423	100	423	100	13.8	3,065	126.0
1948	300	304	99	23	41.8	718	29.5
1949	570	387	147	35	53.2	1,071	44.0
1950	1,003	530	189	45	72.9	1,376	56.6
1951	1,234	709	181	43	97.5	1,317	54.2
1952	1,375	799	172	41	109.9	1,251	51.4
1953	1,422	727	196	46	100.0	1,422	58.5

a. Values for 1937 are the dollar amounts in Table 13 converted to schillings at the rate of 5,400 schillings per dollar.^{103/} Data for the period 1948-53 are from source 104/.

b. It is assumed that indexes of average prices for total commercial imports and total exports are reasonably valid for trade with the Soviet Bloc.

c. Column 1 divided by column 2.

d. Import and export values in column 3 divided, respectively, by the import value for 1937 and the export value for 1937.

e. Index numbers for each year in column 2 divided by the index number for 1937.

f. Column 1 divided by column 5.

g. Column 6 multiplied by the effective average exchange rates of \$0.04108 per schilling for imports and \$0.04112 per schilling for exports. These rates are calculated from the schilling values in column 1 of this table and the 1953 dollar values (before rounding) in the last column of Table 13.

- 59 -

S-E-C-R-E-T

S-E-C-R-E-T

APPENDIX B

METHODOLOGY

Two matters of methodology require explanation beyond that given in the main part of this report.

1. The first of these points concerns the computation of the monetary value of the Austrian output of crude oil and petroleum products since the war. The computation is based in part on data in a State despatch 106/ and in part on data presented in I, B, 2, of this report, together with an estimate of a reasonable market price for the Austrian crude oil exported to the Soviet Bloc. The net result of this procedure is a substantially higher estimate of the value of the output than that in the State despatch. The next several paragraphs describe the data and method employed for the major elements of the estimate and indicate how and to what extent these figures differ from those prepared by the staff of the American Embassy in Vienna.

a. The petroleum products sold by SMV to Austrian distributors are valued at the prices used in the State despatch. The physical quantities for 1945 and 1946 are also from this despatch. The physical quantities for 1947-53 are from an ORR project. 107/ The latter quantities total 4,287,000 tons, or about 157,000 tons less than the Embassy's estimate for the same period. The prices used in the State despatch range from \$25.50 to \$48 per ton, depending on the year. The resulting estimated value of the petroleum products sold to Austrian distributors from 1945 through 1953 is \$171.5 million, compared with the estimate of \$177.2 million by the Embassy.

b. The crude oil exported to the Soviet Bloc is valued uniformly at \$27.50 per ton. Not only this price but also the quantity of such exports which are used for the present computation differ considerably from those in the State despatch.

The Embassy in Vienna reports Soviet "retentions" of 1,679,000 tons of crude oil during the period 1945-49, most of which presumably was exported to the Soviet Bloc as crude oil. The present view is that refinery capacity in the Soviet zone of Austria was sufficient to process the entire output of crude oil during this period

- 61 -

S-E-C-R-E-T

S-E-C-R-E-T

and that significant quantities of crude oil were not, therefore, exported from Austria prior to 1950. Soviet "retentions" during the period 1945-49 thus are taken to be refined products and are valued accordingly.

The estimates in Table 3* of this report of the exports of Austrian crude oil to the Soviet Bloc for 1950-53 also differ somewhat from the Embassy's estimates for these years. Table 3 shows total exports of crude oil to the Bloc of 3,598,000 tons, all of which is applicable to the period 1950-53. The State despatch shows exports of crude oil to the Bloc of 3,870,000 tons from 1950-53, plus exports of 1,679,000 tons for 1945-49, or a total of 5,549,000 tons.

The price of \$27.50 per ton used in valuing the exports of crude oil to the Bloc is much higher than the prices employed by the Embassy in Vienna. The latter prices range from about \$7 to \$16 per ton, depending on the year. These are the prices which were paid for crude oil by refineries in the Soviet zone which the USSR has allowed to remain under nominal US and British control. The prices are considerably less than what appears to be a reasonable market price for crude oil in eastern Austria and are, in fact, not very meaningful, since the US and British refineries are required to sell their outputs of refined products to SMV at prices determined by SMV. Final disposal of the refined products is entirely under the control of SMV.

The price of \$27.50 per ton used in this report is a rough estimate of the market value of Austrian crude oil computed on the basis of the price of Middle Eastern crude oil at the eastern Mediterranean plus the cost of transportation by water and land from the eastern Mediterranean to Vienna. This price is not much less than the prices of \$33 to \$35 per ton which are used in the State despatch in computing the value of petroleum products exported to the Bloc during the period 1950-53. This is more or less the relationship between these prices which is expected because the prices for refined products are averages for relatively low-priced residual oils (worth much less than crude oil) and relatively high-priced distillate products.

c. Estimated exports of petroleum products to the Soviet Bloc are valued at the prices used in the State despatch. These prices range from \$33 to \$35 per ton for the period 1950-53, as stated above, and from \$33.50 to \$48 per ton for the period 1945-49.

* P. 25, above.

S-E-C-R-E-T

S-E-C-R-E-T

d. Use of the data and methods described above results in a total value for the Austrian output of crude oil and petroleum products of \$433 million for the period 1945-53. Estimated Soviet net takings from petroleum operations are computed as 30 percent of this value, or \$130 million. The corresponding valuation of the total output in the State despatch is \$358 million. The percentage estimates of Soviet net takings are applied to only 85 percent of this value, which is stated to be the proportion of total Austrian production controlled by SMV during the period 1945-53. The remaining 15 percent represents the output of the US, UK, and Canadian oil fields. The present view is that Western ownership of the latter properties is largely nominal and that the USSR is able to gain substantially the same rate of net takings from these properties as from those which were claimed as German assets and have been operated directly by SMV. The gross value of Austrian production of crude oil and refined products has therefore been used as the base for the estimate of the amount of Soviet net takings.

2. The second methodological problem requiring special comment concerns the adjustment made in the statistics of Austrian trade in 1937 with what are now the countries of the Soviet Bloc. In order to show more accurately the trend in the geographical distribution of Austrian trade with the individual countries of the Bloc, it is desirable to make some allowance for the principal changes in boundaries since 1937. Accordingly, 25 percent of Austrian trade with Germany in 1937 has been allocated to what is now East Germany; 11 percent of such trade, corresponding to the areas of eastern Germany and East Prussia now under Polish administration, has been shifted to Poland; and 1 percent has been shifted to the USSR in recognition of the Soviet acquisition of the northern part of East Prussia, including Koenigsberg. Other Soviet acquisitions of territory from the Satellites are recognized by adding the following to the reported amount of Austrian trade with the USSR in 1937: 35 percent of Austrian trade with Poland, 17 percent of Austrian trade with Rumania, and 6 percent of Austrian trade with Czechoslovakia. Two percent of Austrian trade with Rumania in 1937 is allocated to Bulgaria in order to reflect the small change in the borders of the two countries.

These percentages correspond to the adjustments for boundary changes which are made in the prewar gross national products of the Bloc countries in an ORR project. 108/ In general, the adjustments correspond to the fraction of a country's prewar area which was transferred or to the fraction of the prewar population living in the area which was transferred. Aside from furnishing an estimate

S-E-C-R-E-T

S-E-C-R-E-T

for Austrian trade in 1937 with the present area of East Germany, the main result of these adjustments is to increase greatly the 1937 figure for Austrian trade with the USSR.

- 64 -

S-E-C-R-E-T

S-E-C-R-E-T

APPENDIX C

GAPS IN INTELLIGENCE

There are several major gaps in the available information on the Soviet economic holdings in Austria. The production of the USIA enterprises in either monetary terms or in physical quantities is not known in most instances. Specific data, also are lacking on the amount of goods delivered to Bloc countries, the amount of Soviet net takings from USIA, and the amount of capital investment, if any, in USIA facilities. Most reports on the physical condition of the plants are too vague to permit a satisfactory appraisal of the situation.

The outstanding gap in the statistics on Austrian trade with the Soviet Bloc is found in the case of the largely unlicensed (and therefore unrecorded) exports to the Bloc by USIA. Reasonably satisfactory data on the physical quantities of crude oil and petroleum products shipped to the Bloc are available, but information on the monetary value of these deliveries is inadequate. Virtually nothing is known of the amount of goods smuggled into Austria from the Bloc.

- 65 -

S-E-C-R-E-T

S-E-C-R-E-T

APPENDIX D

SOURCES

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

"Documentary" refers to original documents of foreign governments and organizations; copies or translations of such documents by a staff officer; or information extracted from such documents by a staff officer, all of which carry the field evaluation "Documentary."

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

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